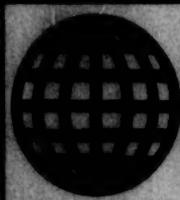


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# ***JPRS Report***

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# **China**

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# China

JPRS-CAR-94-021

## CONTENTS

6 April 1994

### INTERNATIONAL

#### GENERAL

- U.S. Interests in New Pacific Community Discussed /GUOJI ZHANWANG 23 Jan] ..... 1

### POLITICAL

Journal Sees 'Serious Challenges' in 1994 /ZHENLI DE ZHUIQIU 11 Jan]	4
Unresolved Problems in Construction of Socialism /ZHENLI DE ZHUIQIU 11 Jan]	5
Article Insists 'Public Ownership' Remain /ZHENLI DE ZHUIQIU 11 Jan]	10

### ECONOMIC

#### NATIONAL AFFAIRS, POLICY

Review of 1993 Economy /ZHONGGUO JINGJI TIZHI GAIGE 23 Dec]	14
Characteristics of Consumer Goods Market Reported /SHANGHAI JINGJI BAO 15 Feb]	16
State Issues Policy Adjustments on Enterprise Groups /XINHUA RIBAO 5 Feb]	17

#### PROVINCIAL

GATT Potential Impact on Shanghai Industries /SHANGHAI JINGJI BAO 18 Feb]	17
Shanxi Economic Performance, Plans /SHANXI RIBAO 8 Jan]	18
Shaanxi Industries Show Rapid Growth in 1993 /SHAANXI RIBAO 15 Feb]	21
Shaanxi Economic Communiqué /SHAANXI RIBAO 20 Feb]	21

#### FINANCE, BANKING

Foreign Exchange Rate System Reform .....	23
Features of New System /JINRONG SHIBAO 8 Feb]	23
Implementing Floating Exchange System /JINRONG SHIBAO 22 Feb]	24

#### INDUSTRY

Reportage on Aviation Industry, Reform Measures /ZHONGHUA DISANCHANYE BAO 6 Jan]	26
Status, Development of Service Industries /GUOJI MAOYI 15 Dec]	31
Industrial Output Value by Area in February /CEI Database]	33
Feb Light Industrial Output Value Figures By Area Issued /CEI Database]	33

#### CONSTRUCTION

- Report on Real Estate From Construction Conference /ZHONGGUO SHANGBAO 1 Feb] ..... 34

#### ECONOMIC ZONES

- Shenzhen Economic Zone Readjusts Market Prices /JIAGE LILUN YU SHIJIAN Dec] ..... 34

#### AGRICULTURE

- Five Major Social Contradictions, Rural Unrest /KAIFANG 1 Jan] ..... 37

**SOCIAL**

Eight 'Components' Of Propertied Class /*SHEHUI Jan* ..... 39

**MILITARY, PUBLIC SECURITY**

Special Police School Demonstrates Skills /*ZHONGGUO KONGJUN 1 Feb* ..... 41

**TAIWAN**

Cross-Strait Trade Policies Analyzed /*Hong Kong CHING PAO 5 Feb* ..... 43

## GENERAL

### U.S. Interests in New Pacific Community Discussed

94CM0194A Shanghai GUOJI ZHANWANG [WORLD OUTLOOK] in Chinese No 2, 23 Jan 94 pp 25-26

[Article by Liu Xiaojun (0491 1420 6511): "What Are the U.S. Motivations in Promoting a New Pacific Community?"]

[Text] In his speech at Waseda University in Japan in July of 1993, Clinton raised the concept of a new Pacific Community. The Clinton government believes that the future of the United States lies in broader, deeper and more focused participation in the affairs of the Pacific rim region and that there is a need for a "community based on a foundation of shared strength, shared prosperity and joint responsibility for democratic values." Ultimately, this community would include all the members of the Asia Pacific Economic Cooperation forum [APEC] and of NAFTA. The strong U.S. support for the informal meeting of APEC leaders in Seattle was one step in the pursuit of this plan. What is the ultimate motivation behind the U.S. enthusiasm for a new Pacific Community?

#### 1. Hitting Two Targets With One Arrow on the Economic Front

The two economic goals considered by the U.S. in promoting a New Pacific Community are obtaining economic advantages and exerting influence.

The concept of a New Pacific Community is an important strategic step in the implementation of an adjustment in U.S. policy towards the Asian Pacific. From the point of view of obtaining economic advantages: 1) It could rejuvenate the domestic economy. The United States has a large trade deficit, and economic recovery has been slow. Clinton entered the White House on the banner of solving domestic economic problems. He feels that one method of solving this thorny problem is to increase foreign exports, because American prosperity depends to a large degree on international trade which constitutes one fourth of the U.S. GNP. Stagnated export markets increase the difficulty of domestic economic recovery, and it is the Asian Pacific region which can expand the scope of American foreign trade. Clinton says that the Asian Pacific region is "an unlimited source of employment, income, partner relationships, and economic growth." The Asian Pacific region has rapid economic growth and great development potential. Maintaining and expanding relations with this region can open new markets for American products and capital and provide hope for U.S. employment opportunities and labor exports and thus allow the U.S. to cast off these economic difficulties. 2) It can create a foundation for entering the Pacific century. U.S. leaders and experts recognize that the 21st century will be the "Pacific century." It will be more challenging and more prosperous than the Atlantic century. If the U.S. clings to

"Eurocentrism," it will be excluded from the tide of development in the Asian Pacific. Christopher said, "As we approach the next century, the U.S. must keep its sights turned to Asia, on the future of the Pacific." The Asian Pacific has 40 percent of the world's population and a 70 billion U.S. dollar GNP, or 25 percent of the world GNP, and a 7 percent annual growth rate. U.S. trade with this region is up to 344 billion U.S. dollars, or one third of U.S. foreign trade. Every one percent increase in exports from the U.S. to the Asian Pacific region adds 53,300 job opportunities to the U.S. economy. Five of the United States' ten most important trading partners are members of APEC. The proposal to establish a new Pacific Community is an important step for the U.S. in entering the Asian Pacific market. An essay by the U.S. Heritage Foundation said that Clinton's concept of a Community would, after 30 years, allow for APEC and NAFTA to combine into a unified, broad-based, Asia-America free trade alliance which would be the largest free trade zone in the world. The task to be done at this phase is to transform APEC into an economically integrated regional framework which would establish a foundation for links between the U.S. and Asia. 3) It could facilitate the signing of a Pacific free trade agreement. Beginning with the Bush administration, an important strategic concept underlying the U.S. proposals for a Pacific community, later expanded to the New Pacific Community, has been the eventual signing of a Pacific free trade agreement. The Asia Pacific economic community proposal suggested by Clinton at the Seattle meeting is a specific step towards a New Pacific Community, the goal being to transform APEC into a regional organization for multilateral trade negotiations. With this as a lever to promote liberalized investment, eliminate trade barriers, and use liberalized trade to expand investment opportunities for U.S. enterprise, the Asian Pacific region is to be transformed into a free market with strong U.S. involvement. With trade barriers eliminated, the United States will then use every means possible, leading with aircraft, electronic communications, finance and other areas where the United States has competitive confidence, to allow U.S. enterprise to penetrate the Pacific market. By strengthening close economic ties with Asian Pacific countries within the scope of a community, the United States can then rely on its own superiorities and the standards and systems of multilateral structures to exert influence on other countries. The United States is accustomed to using relevant legal provisions to exert pressure on other countries. The United States is attempting to use APEC as a springboard to reaffirm the influence of the United States in this region. Another aspect is that, after the end of the cold war, U.S. influence in the Asian Pacific declined. The economic power of Japan, the ASEAN countries, and other Asian Pacific countries strengthened. The United States is concerned that Japan will use economic methods to establish the "Greater East Asia Co-Prosperity Sphere" that military methods failed earlier to achieve. To maintain the leadership role and influence of the United States in the Asian Pacific region after the end of the cold war, the United States has

emphasized the need to create a new mechanism for cooperation and to develop a new policy towards the Asian Pacific region which is consistent with the new reality and has "coalescing power." The U.S. Assistant Trade Negotiator stated, "if we are to continue to have competitive leadership in the Asian Pacific region, we must bring together a constructive alliance with the Asian Pacific countries."

#### 2. Killing Two Birds With One Stone on the Security Front

The two security goals of the United States in promoting a New Pacific Community are to maintain stability in the Asian Pacific region, thus protecting the security of the United States, and to urge other countries to share some of the defense burden.

The U.S. view is that, after the end of the cold war, the factors most contributing to instability in Asia have been the widespread military buildup in many Asian Pacific countries, the suspicion that North Korea and other countries have developed nuclear weapons, and the possibility of regional conflict among the coastal countries due to the lack of clearly defined borders and economic waters. Of the five remaining Communist-controlled countries in the world, four are in Asia. In order to establish a stable situation in the Asian Pacific region, the New Pacific Community should perform a security function, the focal points of which would be to continue stationing troops in Asia to project a threat and achieve victory in any conflict; prevent nuclear proliferation, and conduct new regional dialogue. The United States believes that maintaining appropriate military strength in the Asian Pacific region will contribute to stability and economic growth in the region. The United States will continue to maintain military alliances with Japan, South Korea, Singapore, the Phillipines, and Australia and strengthen strategic relations with ASEAN so that the U.S. can use Southeast Asian military facilities at any time. Decreases in the U.S. defense budget will be mainly in Europe rather than in Asia. The United States continues to maintain 15 percent of its military strength in Asia to prevent the emergence of a power vacuum and a new hegemonist force. The U.S. military believes that the establishment of a multilateral military framework in the Asian Pacific is still a matter for the rather distant future, because this can only be brought about after the "process of establishing a community" is carried out. Currently only APEC can exercise a security function. The United States will be able to perform a positive function in an organization for multilateral dialogue like APEC.

The United States sees the discussion of a joint approach to the challenges of defense in the region as a priority issue, because the Americans feel that it is a difficult burden to maintain the region's stability single-handed. President Clinton has called for cooperation in establishing joint defense, joint prosperity and democratic values in the Pacific region. The United States intends to link the provision of a security function in the Asian

Pacific market with the bilateral security treaties maintained between the United States and Pacific region countries. With regard to security strategy in the Asian Pacific region, the United States will no longer put its efforts into seeking new military bases but on conducting regional security dialogue. Utilizing the forum of a community and establishing bilateral and multilateral dialogue mechanisms will cause more countries to be concerned and share the responsibility for regional defense. U.S. defense authorities have indicated clearly that Japan should assume greater responsibility in the joint defense of the Asian Pacific region and has also urged South Korea to make greater contributions to defense.

#### 3. Two for One on the Political Front

The political motives behind the U.S. enthusiasm for a New Pacific Community are to promote American values and also to provide for the strategic containment of certain countries.

The countries of Southeast Asia and some other countries in Asia still have differences with the United States on Western democracy and human rights concepts. The United States has always wanted to conduct "open dialogue" with Asian countries on the issue of human rights but also does not want the human rights issue to damage relations with the countries of this region. The establishment of a type of community would create an ideal forum for carrying out this task. The United States also wants to use APEC to exert pressure on North Korea on the nuclear issue. Another important motive for the U.S. promotion of a New Pacific Community is the containment of Asian countries especially China as well as to make the activities of APEC serve U.S. strategy. The U.S. view is that China presents the greatest current and future threat to the United States in the Asian Pacific region. Hence the Clinton government wants to adopt a more subtle policy towards China than that of the Bush government. They wish to use the context of a community to bind the hands and feet of China and eliminate this potential "threat." Their method is to urge China to develop towards a free market economy and get China to participate in an integrated economic and security mechanism to prevent the possibility of China conducting "outward expansion." The U.S. also hopes to use the Asia Pacific community to contain the divergent tendencies of Japan and the ASEAN countries.

#### 4. Future Prospects

The U.S. plans to implement the New Pacific Community in three phases. The first phase is to sign a communique promoting the elimination of trade barriers. The second phase will be to discuss and delineate long-term goals at a summit meeting. The third phase will be to establish a community. The U.S. thinking is to first make APEC into an organization for multilateral negotiations and then, in one set of successful negotiations, make APEC and NAFTA into one combined unit.

Although the United States has spared no effort in promoting the New Pacific Community, the future prospects are not optimistic. There are differences in values between the U.S. and Asian countries. There are serious gaps in economic, security and human rights issues. Several Asian countries, especially the ASEAN countries, have expressed unhappiness with U.S. attempts to control APEC and do not approve of making APEC into a negotiating organization. The Malaysian premier did

not participate in the Seattle meeting because of this. Thus it will be very difficult for the United States to manifest its concept. A New Pacific Community will not emerge in the Asian Pacific in the near future. The United States will, however, become more and more aggressive surrounding the question of a New Pacific Community as well as in protecting U.S. national interests and grasping for leadership in the economic development of the Asian Pacific region.

**Journal Sees 'Serious Challenges' in 1994**

**94CM0158A Beijing ZHENLI DE ZHUIQIU**  
**[PURSUIT OF TRUTH] in Chinese No 1, 11 Jan 94**  
 pp 2-4

[Article by Journal Commentator: "Hope for the Coming New Year"]

[Text] The new year is here, to our broad readership we send our warmest greetings!

In the coming new year, Chinese people follow our cultural traditions to discard the old and welcome the new, and sincerely look forward to the party and government to carry on the party's fine traditions, wash away the harmful filth which has stained the institutions of the party and government, and achieve better results in the various tasks of building socialist modernization.

We highly endorse the suggestion of a high-ranking Chinese leader that in implementing a socialist market economy, we should study well what socialism means and wear the "socialist" hat properly. That is to say that if we are truly working toward socialism, we should not view socialism simply as a matter of wearing, or not wearing a hat by that name. In fact, there are some cadres who fail to clearly differentiate socialist market economy from capitalist market economy to the extent that in words or deeds they often toss aside the socialist "hat." There are also those who, having other objectives in mind, openly advocate steps which will greatly weaken and even dismantle the collective economic system and, using open or covert tactics, attempt to carry out privatization. Such theories and actions are harmful to building socialist modernization; these, along with the unhealthy tendencies manifested in the party and the increasingly serious corruptions seen in the society during the last few years, all show a trend that, if allowed to develop unchecked, will lead to considerable dangers and therefore cannot be treated lightly.

To China and its people, 1994 should be a glorious year as well as a year of serious challenges. It is a glorious year because the anti-corruption struggle launched under the party and central government's leadership will gradually penetrate to the grass-root levels; because the "Decisions on Certain Issues Pertaining to the Establishment of a Socialist Market Economic System" promulgated by the 3rd plenum of the 14th CPC Congress will extend reform to the lower levels; and particularly because the publication and subsequent organized studies of the third volume of "Deng Xiaoping's Selected Works" will raise the ideological consciousness among the broad masses of cadres and people who, armed with such a weapon, will counter and overcome the various unhealthy tendencies and launch a forceful struggle against the reactionary forces which utilize peaceful overture tactics against China in the international arena. If all party and government cadres, particularly the leader cadres, thoroughly study and completely understand the ideological viewpoints of comrade Deng Xiaoping, they will in their work

be able to emphasize the good points, correct any shortcomings, and carry out the party's basic line in a concrete, correct and comprehensive manner, and the result will certainly be greatly elevating the party's prestige among the masses and strengthening the close relationship between the party and the people.

Why do we say that the coming new year is also a year of the most serious challenges? Because in terms of economics, politics, ideology and other areas, numerous serious problems still require solutions, and some of these urgently, such as sharp drop in production, trade abnormalities, monetization out of control and increasing inflation; we must pay close attention to such problems and guard against their impact on the entire process of economic construction, reform and opening up. In restructuring the economic system and accelerating economic development by intensifying reform, we should aim to speed up the pace of making adjustments while maintaining stability, for we cannot afford to allow chaos to develop by accelerating development. In restructuring state-owned enterprises and establishing a modernized enterprise system, we should protect the primacy of the collectivized system, particularly the central core of state-owned enterprises from being weakened or dismantled. In summary, stable economic development is the foundation for political stability and unity, and must therefore be managed effectively.

With respect to the anti-corruption struggle currently underway, this is a difficult major task which runs into much resistance, particularly because in many large and major cases, the people and projects involved are very complex, which make it very difficult not only in indictment and investigation but also in sentencing and punishment. In many localities, departments and work units, there are cases of malfeasance, corruption, abuse of authorities, embezzlement, giving and receiving bribes on the part of some cadres and working personnel; the fact is that such corrupt behaviors and activities which violate the law and regulations have become habits after many years, and some guilty persons not only are not ashamed, but are proud of their activities of making more and more money, using clever tactics and spending lavishly. In the anti-corruption struggle, such people not only feel no remorse and admit no guilt but on the contrary try to resist punishment by seeking assistance from their superiors and subordinates, friends and colleagues. At the same time, many trades and businesses act irregularly or illegally in apportioning costs, levying penalties, collecting fees, raising prices and using all kinds of ways to defraud and take advantage of the people; although some regulations have been issued to deal with these problems, because of the size of China and its population, these abuses cannot be controlled or stopped outright. Therefore, in the anti-corruption struggle, we must be resolute in our determination, and must concentrate all possible strengths, extend a helping hand to the masses, and adopt severe and thorough measures to overcome the many difficulties, before we can achieve greater results.

We will need to be more forceful in establishing the ideology of communism and in firmly supporting the party's ideological political work which is at the heart of the socialist system. In recent years, the ideological trend of bourgeois liberalization has not disappeared but rather has intensified in certain respects, and it retains the danger of once again polluting the country; but yet, there are some stubborn supporters of liberalization who, under the slogan of intensifying reform, spread the harmful viewpoints of privatization and total westernization among the masses, and serve the cause of the Western reactionary forces which attempt to bring about changes in China's system of socialism under the pretext of peaceful evolution.

The above has demonstrated that many serious and urgent problems still confront us, and that we must accept these serious challenges and, through testing by them, continue to make forward progress.

To solve the above-mentioned series of important problems is not only the hope of the Chinese people but also the desire of the rank and file cadres. If leader cadres of our party and government, particularly the high-ranking leaders, themselves share the hope and desire of the broad masses of people and cadres, they need only to solve the problems people are dissatisfied with and do well the things which benefit the people, they will have accomplished their missions.

An ancient proverb states that one anticipates danger while living in peace. For a nation, even when the economy is developing, the political situation stable and the people well off, [the government] should from time to time consider whether any disasters, emergencies or dangers which escaped detection may be threatening. The proverb is a warning to those in political power not to be proud of or self-satisfied with what they may have achieved, [a point which] many elderly revolutionary leaders of our party have also earnestly admonished us in the past. Today's situation and the tasks at hand are very much more complicated than ancient times, the changes are much more rapid, and we must constantly maintain a very alert frame of mind, not overestimating what we have accomplished or overlooking problems which still remain, but making due assessment of the difficulties we face, if we are to gain the benefits and avoid the pitfalls.

Communist Party cadres must anticipate danger while living in peace, not only because many yet to be resolved problems still confront us as we go forward, but also because in the world at large, class struggle has by no means disappeared, only the methods of struggle have changed. In our relationship with the monopolistic capital classes in the West, we now emphasize unity as well as struggle. In economics, cooperation and unity are the key: More exchanges, more businesses, the more we learn from them the good things we ourselves can use, the better; but in terms of ideology and politics, struggle unfortunately cannot be avoided, and our struggle is directly mainly against the reactionary forces that try to eliminate communism in China, for the eyes of the

reactionary forces are sharply focused on Chinese Socialism, and they will not be satisfied unless and until the Communist movement is completely destroyed within this century; these reactionary forces will intensify pursuit of their peaceful evolutionary strategy, and the Chinese people must constantly and strictly guard against and resolutely resist their open tactics and covert schemes and the various types of attack. Naturally, because of the costs and benefits involved, different developed capitalistic countries in the West have different attitudes toward China, and we cannot treat them all as one group.

When we talk about anticipating danger while living in peace, we are following the principle of seeking truth from facts; we should neither exaggerate the difficulties involved nor make up dangers where none exists and consequently lose our faith. At the same time, after considering all possible dangers, we should redouble efforts in our struggle to correct all mistakes and shortcomings, do well in all the things that need to be done by overcoming various difficulties, and make the party even stronger in terms of ideology, politics and organization; proceeding from an effective system of law, we should strengthen management, increase efficiency and heighten the prestige of democratic dictatorship of the people. At the same time, by vigorously strengthening the conditions for ideological political work, we should mobilize the enthusiasm for building socialism among the broad masses of people, popularize again the traditions of struggling against all hardships and preserving against all odds, and help the people sweep away the unhealthy ideology of money worship, extreme individualism, self-indulgence, making of large gains from little labor and all kinds and manners of corrupt behaviors and practices that are being promoted in today's society. From this it can be seen that our demand is not only to anticipate dangers, but to get rid of these dangers and restore stability and peace.

In the new year, with joint efforts by the entire party and all the Chinese people, given the prerequisite political stability, we should strive to maintain forward progress and momentum in the tasks of building socialism with Chinese characteristics.

**Unresolved Problems in Construction of Socialism**  
94CM0159A Beijing ZHENLI DE ZHUIQIU  
[PURSUIT OF TRUTH] in Chinese No 1, 11 Jan 94  
pp 5-11

[Article by Mei Xing (2734 5887): "Several Issues Concerning the Construction of Socialism—Thoughts Inspired by The Selected Works of Deng Xiaoping: Volume 3"]

[Text] The publication and organized studies of *The Selected Works of Deng Xiaoping, Volume 3*, are a major event in China's political life today. When the masses of cadres, especially the high-ranking party and government leading cadres, acquire a thorough knowledge of

the theories in this work, it will indeed ensure unity in thinking; reinforce our conviction; and facilitate active, comprehensive, and correct implementation of the Party's basic line.

Comrade Jiang Zemin spoke at the study report meeting and gave an incisive exposition of the theme of *The Selected Works of Deng Xiaoping*: "Only socialism can save China; only socialism can develop China. The socialism we uphold is a socialism with Chinese characteristics." The quintessence of this theory is its liberated ideas and its practical and realistic approach which are inherently unifying in nature. Through extensive practice and in the course of probing, studying, formulating, and perfecting this theory, we should discard some principles and some bookish, dogmatic ways we understand Marxism as well as some unscientific and even distorted interpretation of Marxism, and we should abandon incorrect ideas that are beyond the early stage of socialism. On the other hand, we must firmly oppose those erroneous viewpoints that basically reject socialism but insist on using a dialectic materialist and historical materialist world-outlook and methodology to analyze and solve problems. Comrade Jiang Zemin's exposition no doubt will play an important role in guiding our study of *The Selected Works of Deng Xiaoping*.

When we study *The Selected Works of Deng Xiaoping*, of course we must first study the original and understand its gist, but we must also link it to reality, including today's reality and the practices of the past decade or so, for only then can we learn and apply what we have learned and actively, comprehensively, and correctly implement the party's basic line and accomplish various socialist modernization tasks and in turn forge a closer relationship among the party, the government, and the masses and acquire high esteem to lead the masses to struggle for our new cause.

While studying *The Selected Works of Deng Xiaoping*, Volume 3, I thought about some of the basic knowledge we have accumulated in practice over the past several decades and the work we have done in the last 10 years or so in the course of constructing a socialism with Chinese characteristics. Here, I want to discuss some of my own crude and simplistic viewpoints, and I welcome criticisms and comments from the readers.

The first matter that requires proper handling is the relationship between politics and economics. Economics is the base, and politics is the centralized manifestation of economics. Politics is built on, but also counteracts on, the economic base, and under certain conditions, politics can even decide a nation's economic rise or fall. In his later years, Engels once wrote a letter in which he talked about the counteraction of politics (state power) on economic development. He said politics could make the economy develop faster, but it could also cause the economy to collapse (see *Selected Works of Marx and Engels*, vol 4 pp 483 and 486.) In practice, we often have trouble handling the relationship between politics and

economics, and we often have disagreements and arguments. In essence, the focus of contention over the way the Eighth National Party Congress worded the country's major contradictions at that time and questioned whether the party's central task should be shifted was also on the relationship between politics and economics. The opinion that the party's central task should be gradually shifted to concentrate our energy on developing the productive forces was a correct one at that time. But in 1957, the year after the Eighth National Party Congress ratified the decision, the anti-rightist struggle expanded: In early 1958, the so called "criticism of people who stood against rash advances" became a political issue. Later, serious mistakes were made in the Great Leap Forward and in the commune system when we attempted to speed up the development of the productive forces and change the productive relationships. That was followed by the Lushan Conference during which Comrade Peng Dehuai's correct ideas were criticized as rightist opportunism and anti-socialist thinking. A massive counter-rightist movement ensued. These approaches not only did not protect or develop the productive forces but actually ruined them, just like Engels had said; it brought the economy to the brink of collapse. In 1963, when we just began to overcome our economic difficulties, just when agricultural and industrial productions were recovering and were going to move forward again, we were interrupted by the "Four Clean-Up" movement [clean up politics, ideology, organization, and the economy.] By the time of the "Cultural Revolution," the two counterrevolutionary groups under Lin Biao and Jiang Qing used politics as an excuse to greatly exaggerate the class struggle. They also tried in vain to ruin the economy and cause the social productive forces to stall and move backwards and widen the gap between us and the Western capitalist nations. One of the root causes of China's erroneous "leftist" guiding ideologies in those 20 years was the mixed-up relationship between politics and economics. Practices that only stressed politics and alienated economics, or we should say the method of using politics that violated the laws of economics to direct the economy, seriously jeopardized the development of the social productive forces. It was a very profound lesson.

History has already drawn for us the following simple conclusion: Politics that do not follow the laws of economics, and politics that do not serve the economy do not facilitate and can even jeopardize the development of the social productive forces and in turn obstruct the reinforcement of the socialist system. After the proletariat obtains political power and stabilizes the political situation, it should stand firm and concentrate its strength on developing society's productive forces. But history has also provided us with experience of another kind: If economic development deviates from the correct political leadership, it can lose its way and embark on the wrong road, a winding road, or a crooked road, producing many social problems which can turn around to cause political harm and hurt the leadership.

The greatest victory of the Third Plenary Session of the 11th Party Central Committee was its firm decision to shift the focus of the party's tasks and the attention of the nation's people to the socialist modernization process. In a little more than a decade, China's socialist modernization has obtained glorious results and has displayed its own characteristics. This is an integral part of correct political leadership. The two basic points determined by the party's basic line, namely, the four basic principles and reform and opening up, give expression to unity of politics and economics and to their ability to promote each other and restrain each other, and the party is correct on this. But we must also point out that because of weakened political ideology education, and because of the abuse of power for personal gains and other improper behavior among party and government cadres and among workers in various trades and industries, extreme individualism, money worship, hedonism, money-before-everything mentality, and other improper ideas have sprung up within the party and in society. Bourgeois liberalism ran amuck on several occasions, economic development surged and plummeted, the industrial structure deteriorated, and profit fell and so on, and all these have an adverse effect on the comprehensive and correct implementation of the party's basic line. It is clear that the basic problem lies in the inconsistent handling of the relationship between politics and economics. Before the Third Plenary Session of the 11th Party Central Committee, everything had been politically-oriented to the point of ignoring the economy, but in the last decade or so, the economy has taken precedence and politics has been slighted or even ignored. In opposing the one-sided approach of letting politics determine the economy, some comrades go to the other extreme to produce another kind of one-sidedness, which is to overlook the active counteraction of politics on the economy and to deny that under certain conditions, politics can play a leadership role or even commanding role in the economy. The substantive manifestation of this role is the party's unified and correct leadership, and the concrete work it performs is strong and effective education in political ideologies. After the "4 June" disturbance, Comrade Deng Xiaoping hit the nail on the head when he pointed out that, "If a mistake has been made, it would be our lack of consistency in upholding the four basic principles and our failure to make that our basic thinking in educating the people, the students, and the entire body of cadres and communist members. The nature of that incident was a contention between bourgeois liberalization and the four upholds." (see *The Selected Works of Deng Xiaoping Vol 3 p 305.*)

An extension of the relationship between politics and economics is the question of how to correctly handle the relationship between material civilization and spiritual civilization when constructing socialism. Upon obtaining political power, it has been the theme of the Communist Party members to develop the social productive forces and construct a material civilization at a rate faster than that of the capitalist nations. A nation without economic power will have no place in this world

and eventually will be subjugated by those who subscribe to hegemonism. But to develop the productive forces at high speed, we need two things: First, the party and the state must have a correct construction line and a set of general and specific policies. Second, the masses of cadres and the people must be willing to engage in arduous struggle for the sake of socialist modernization. To attain the second condition, we must focus on the construction of the spiritual civilization. Of the great economic powers in the world today, some nations, such as the United States, rely mainly on their superior natural conditions, the rich endowment left by their ancestors, and their control and exploitation of the third world nations. Others, such as Germany and Japan, who were defeated in the war, rely mainly on their own people's arduous struggle and advanced science and technology and management methods. China's natural conditions are fairly good, and we have a fine national tradition of arduous struggle and self-reliance. So long as we have the above two conditions, and if we truly unite, overcome hardship and learn, and do some hard and solid work for a few decades, we will be able to catch up with the economic powers. Of course, they too are developing, and to catch up with or even surpass them, we must work many times harder.

With respect to the idea of focusing on the two civilizations at the same time, Comrade Deng Xiaoping has already talked about it at a meeting with the central delegation from India's Communist Party (Marxist Party) back in April of 1983. His famous words are, "To construct a socialist spiritual civilization, it is fundamental that the masses of people share the communist ideal and have morals, culture, and discipline" (*The Selected Works of Deng Xiaoping Vol 3 p 28.*) To let the readers understand why the Party Central Committee put so much emphasis on strengthening spiritual civilization back then, we should cite a passage from a written speech delivered by Comrade Chen Yun in June 1985: "When constructing the socialist material civilization, if we do not construct a socialist spiritual civilization at the same time, our material civilization may deviate from the right direction. If a unit or a leading comrade forgets or relaxes his grip on the construction of the socialist spiritual civilization, we will not succeed in constructing the material civilization. Even more serious is that we may deviate from the socialist and communist ideals. That can be very dangerous." (*The Selected Works of Chen Yun (1956-1985)* p 301.)

We were forewarned, and with sincere words and earnest wishes too, but the facts were, back then bourgeois liberalism was beginning to run rampant and was getting a certain amount of support from the party general secretary, Comrade Hu Yaobang, who continuously diminished the construction of spiritual civilization and curtailed political ideology education. To those elements who were dissatisfied with the socialist system at that time, compared to the dazzling world and pleasures of Western capitalism, socialist and communist ideals were but illusions of the primitive men. They found no

redeeming value in the then flourishing Chinese socialist modernization, and they believed that everything the Western world had to offer was perfect, and as a result, talks of all-out Westernization began to appear and words demanding the abolition of the communist leadership also spread; opinions that encouraged eating, drinking, and the pursuit of happiness and even the pursuit of money also appeared in the newspapers. In fact they were abandoning the spiritual civilization whose goal was to pursue communist ideals, morals, and discipline. This kind of bourgeois liberalism which rejected the ideologies of the four basic principles and wholeheartedly yearned for capitalism indeed poisoned the minds of the party members and cadres and the masses in a broad and profound way. In particular, when Zhao Ziyang was general secretary, he blatantly supported and indulged this kind of thinking and surrounded himself with many mainstay elements. The most striking evil consequence was the political upheaval and counterrevolutionary disturbance that erupted in the capital in 1989.

Ideology may seem abstract, but it, like the political system, is the superstructure built on the economic base; its counteraction on the economy is strong, and it also plays an important role in guiding the political direction. To the communists and revolutionaries, the communist ideology we often speak of is the supreme value outlook; it is also the outstanding feature that separates them from other people. Communist party members must discipline themselves, propagate this most noble of ideologies among the people, conduct effective political ideology education, and get rid of some of society's unhealthy ideologies and workstyle and traditional practices. We still have a long way to go before achieving communism, but we must not abandon that ideal, for if we do, our nation will be like a body without a soul; it will quickly decay and will be rendered beyond help, and eventually we will be trampled by those who believe in hegemonism and will become the laughing stalk of the world.

The above is the second issue, that is, we must emphasize material civilization and spiritual civilization at the same time, and if more problems should emerge in our spiritual civilization, we must make a even greater effort to strengthen that area.

The third matter below has to do with the relationship between the productive forces and productive relations.

The productive relations must adapt to the development of the productive forces. As the productive forces develop, the original productive relations must change; otherwise, they will obstruct the development of the productive forces. In the course of our socialist construction, we have inadvertently produced two erroneous tendencies: First, we believed that by continuously changing the productive relations, the productive forces would develop at high speed. The successful completion of the three transformations of socialism led people to have unrealistic ideas, and very soon after the start of the "Great Leap Forward," the nation began to install the

commune system, believing that it would greatly improve the productive relations and speed up the development of the productive forces. The result was total disaster. But for a long period thereafter, there was another kind of erroneous tendency: We ignored any improvement in the productive relations and stuck to old conventions, and as a result, China's economy stalled. The general policy of reform and opening up proposed after the Third Plenary Session of the 11th Party Central Committee in essence wanted China's productive relations to adjust to the development of the productive forces and promote a high rate of economic growth. Facts show that this decision by the Party Central Committee was entirely correct; the results have been outstanding.

China proceeded with step-by-step reform and opening up, first in the rural areas, and upon gaining some experience, shifted the focus to the urban areas, slowly paving the road to a socialist modernization with Chinese characteristics. We still have a long way to go, but we have a lot of experience which we must continuously review and sum up. *The Selected Works of Deng Xiaoping*, Volume 3, discussed this in detail and gave it a highly theoretical summation.

Changing the productive relations is a very complicated matter. It involves the administration of political power and the workings of the economic system and often can trigger sudden changes in the overall situation. That is why on this matter we must oppose conservative tendencies that reject changes and encourage complacency, but we must also oppose rash moves and impatient approaches. The laws of development of all things require deep probing, repeated tests, and extensive practices, and only then can we understand the laws of their internal relationship. Many important people in the world have discovered the objective laws of natural science and social sciences. They have all struggled long and hard and have experienced many failures before succeeding. Whether our reform will succeed or fail is not determined by our subjective will; we must go through the test of actual practice, and we must go through repeated tests before drawing conclusions. This means we must constantly review our experiences, acquire more knowledge, and let knowledge set us free and not just think that things are inevitable. In other words, we must comply with the gist of Comrade Deng Xiaoping's theory of constructing a socialism with Chinese characteristics and unify liberated thoughts with practicality and reality, and only in that way can we succeed in restructuring various systems and avoid mistakes.

The fourth matter we want to discuss here is about upholding the public ownership system as the primary system among the socialist market economic mechanisms we set up in the early stage of socialism. In simple terms, the capitalist market economic mechanisms are built on the foundation of the private ownership system. It utilizes the law of value to regulate supply and demand

and market prices. The socialist market economic mechanisms are built on the foundation of the public ownership system. In essence, we should use both planning and the market as means of regulation to guide the economy along the socialist path.

For many years, the capitalist nations have been utilizing indirect planning and regulation, economic measures, and administrative interventions to supplement the market economy and ease the conflict between socialized production and private ownership of means of production, and in terms of organization, they have used enterprise groups and economic integration and other ways to concentrate their economic strength and in turn reduce the crisis elements in the market economy. This is progress in the way the capitalist nations control the way their economic system works. Ours is a socialist nation. From the beginning, we have implemented a highly centralized planned economic system, and back then, that system indeed played an effective role in promoting the rapid development of the productive forces. The First 5-Year Plan successfully centralized the financial and human resources to lay a tentative foundation for our socialist industrialization. That success was an integral part of the highly centralized planned economic system. But even back then, our party had already realized that over-centralization was not good for the economy, and it prompted them to suggest putting large projects under planning while giving small undertakings a free hand. Comrade Chen Yun spoke at the Eighth National Party Congress held in 1956 and proposed relaxing market control. He subsequently was responsible for drafting the provisions on improving the industrial, commercial, and financial management systems. They were never carried out because of the Great Leap Forward Movement. In 1979, Comrade Chen Yun spoke in no uncertain terms on the idea of using market regulations to supplement economic planning. That in fact marked the beginning of the restructuring of China's single-track planned management system. Of course, in the several years after reform and opening up began, we first combined economic planning and market regulations and then we decided to implement the socialist market economic system. It has been a gradual, step-by-step process. But it should also be pointed out that making a decision in principle with respect to a system and the actual practice of that system are two different matters. It takes time for the cadres to grasp the principles and apply them, and in practice, there are many things we must probe, experiment with, understand better, and continue to improve. In short, today's popular idea of getting rid of planned regulations completely is not right and can even be harmful, because if we did that, wouldn't we be returning to the early form of capitalist economic management? Shouldn't we give the confusion in our economic life caused by the relaxation of macro regulation and control in the last two years some serious thoughts?

On this matter, there is another important thing we want to point out, and that is, today, some people are directly

or indirectly advocating replacing the public-ownership system as the main system in the socialist market economy and minimizing the share of the state-owned economy. A handful of economists even believe that the public-ownership system is but a means while developing the productive forces is the true goal, which can be achieved by any other means. According to such theory, we do not need any kind of ownership system with respect to the means of production, because it matters not who owns them. To put it plainly, they want to abandon socialism to set up a market system for the early-to-intermediate stage of capitalism. As we said earlier, even the capitalist nations are utilizing indirect planning as means to regulate the economy. On this matter, neither *The Selected Works of Deng Xiaoping* nor the party Central Committee's resolution has ever abandoned the principle that the public ownership system must be the main system during reform and opening up. If the public-ownership system is not the primary system, and without the state-owned enterprises serving as mainstay in particular, what will be left of socialism? Where will reform and opening up be heading?

Some people want to diminish and even disband the large state-owned enterprises, saying that they are inefficient, that they lose money, and that they are a heavy burden and should be discarded. We have many large state-owned enterprises. We began setting them up under the First Five-Year Plan; it has been more than 30 years, and during this long period, has anyone bothered to figure out how much money they have made for the state and how much they have contributed? Old workers who went through fire and water from the early days of the founding of the nation to just before the Cultural Revolution and who toiled night and day to lay the foundation for today's socialist economy have given their lives to the state and to the people. Shouldn't the state take care of them now? Today, there are some so called communist party members and state cadres who call themselves revolutionaries who won't find ways to curb the problem of people wining and dining on billion yuan's worth of public funds a year; they don't worry about how to stop the draining of state funds to the tune of 100 million yuan a day. Instead they want to get rid of the millions of old retired workers who have worked all their lives but who are getting a very small pension today. They don't think about the 80 million peasants and herdsmen in the poverty-stricken areas who don't have enough to eat or to keep them warm. They even boast that "state-run businesses are not as good as collectives, and collectives are not as good as privately-owned businesses, and private businesses are not as good as wholly foreign-owned or joint venture businesses." Isn't it clear what these people want? Is it realistic to ask them to serve the people with all their hearts and minds?

People who want to diminish or remove the primary role of the public-ownership system and attempt to change the nature of the state-owned enterprises, regardless of how they feel subjectively, are in fact trying to topple socialism. Practice is the only criterion in testing the

truth. What kind of conclusion will history draw about these people? Everything will become clear in practice.

Here we must say something about centralization and decentralization of power. In the past, power was over-concentrated in the hands of the central government, and all human and material resources were controlled by the relevant government departments. These defects have been in existence all along. In recent years in particular, abuse of power for private gains and the trading of power and money and other ill winds have swept the country, and many cadres, including a few leading cadres, who have a lot of power are making a lot of money and those with a little power are making a little money, and even those without power are taking advantage of the situation. Thus, handing down power to the localities and enterprises may be a necessity, but the question is how, how much, and whether the devolution of power will truly mobilize the proper kind of enthusiasm among the cadres and the masses. Here, we must put "proper" before "enthusiasm," because the lesson from the Great Leap Forward is that without proper leadership and strict control, enthusiasm can become recklessness. If this kind of recklessness should run amuck in the country, if the capital construction projects are jeopardized, if we pursue an unrealistic rate of growth, if we set up development zones regardless of conditions, and if we do what we want to draw up our own policies and rules and regulations, it will lead to chaos and jeopardize the central government's unified leadership. China is a vast country; unification is hard to come by, but localism and decentralism can spread quickly. If the decentralization of power is allowed to develop without restraint, it will be very dangerous. If we are not careful, everybody will set up blockades and engage in separatism, and then not only will we fail to create a market economy but there can be unimaginable political consequences.

In summing up our war experience, Comrade Mao Zedong said, "If what should be centralized is not centralized, then those in high places must be derelict of duty and their subordinates are usurping their authority. This is not permissible in any kind of relationship between a superior and his subordinates, especially in military matters. If what should be decentralized is not decentralized, then those in high places must be hoarding power and their subordinates are without initiative. This too is not permissible in any kind of relationship between a superior and his subordinates, especially in a relationship of command in guerrilla warfare." (*Selected Works of Mao Zedong*, 2nd Edition, Volume 2, pp 436-437) Comrade Mao Zedong's correct viewpoint on centralization and decentralization which puts strategies under central command while making the subordinates responsible for actual deployment in battle can also be used to guide our economic construction. What makes a modern economy different from a natural economy is that the former is more centralized and facilitates centralized command, which means we must emphasize macro regulation and control. Of course this kind of centralized command or macro regulation and

control must be coordinated with the socialist market economic mechanisms, that is, we must work on public finance and taxation, banking and credit, interest rates and prices, the scope of capital constructions and key construction projects, industrial-agricultural and urban-rural relationships, regional distributions, the balance between the public and private economies, and the allocation of national income and so on.

If things are very lively at the micro level, control must be tightened at the macro level. This may seem contradictory on the surface, but in fact, this is dialectics. If we tighten control at the top and bottom, we will stifle the economy; if both are let loose, it will lead to chaos. There are many lessons of this kind. Some cadres have trouble accepting macro regulation and control. The root cause of that is their inability to consider the whole situation. They do not take the whole economic situation into consideration and worry only about their own struggle for power and profit. This means the Party and the state must always take the whole situation into consideration and get rid of the improper, localized interferences and focus their attention on solving problems that affect the overall situation.

Finally, I want to mention one more thing. Comrade Mao Zedong's famous saying, "Strategically we should ignore our enemies, but tactically we must focus attention on the enemies," not only can be applied to politics and to past struggles in the world but can also be applied to the economy and to today's tasks, because this is a fundamental principle. To retreat in the face of problems is not the proper attitude of a Communist Party member, but to ignore problems and charge ahead recklessly will not bring success either.

I have only begun to study *The Selected Works of Deng Xiaoping*, Volume 3. Here I am only offering some crude and superficial opinions based on my own past practical experiences. I welcome criticisms. Where there are disagreements, there can be discussions, because contention and debate broaden people's minds, and of course, ultimately who is right or wrong can only be determined through practice.

#### Article Insists 'Public Ownership' Remain

94CM0157A Beijing ZHENLI DE ZHUIQIU  
[PURSUIT OF TRUTH] in Chinese No 1, 11 Jan 94  
pp 12-15

[Article by Li Pingshi (7812 1627 4258): "There Can Be No Wavering From 'Public Ownership As the Mainstay'"]

[Text] As we implement opening and reform and develop the socialist market economy, keeping public ownership in its dominant position is an important component of comrade Deng Xiaoping's theory of building socialism with Chinese characteristics, as well as one of the fundamental spirits of the 14th National Congress of the CPC. Discussing this topic in the 14th

Party Congress report, comrade Jiang Zeming pointed out that, "The orientation of economic reform is based on maintaining public ownership and distribution according to work as the mainstays; other economic sectors and means of distribution may supplement these, in order to establish and perfect the socialism market economy system." He also noted that, "The socialist market economic structure is combined with the basic structure of socialism." If public ownership is not taken as the mainstay, the basic socialist structure will suffer serious damage, perhaps even a quantitative change. This is self-evident.

Therefore, in reforming the economic system and developing the market economy, persistence in taking public ownership as the dominant sector and nonpublic forms of ownership as supplements should become a common understanding and unified guidance for the nation. However, some people believe there seems to be some incompatibility between insistence on taking public ownership as the dominant sector and establishing the market and developing productive forces; so they always advocate reducing and weakening publicly-owned economy. Not long ago, it was reported in the newspapers how some economists had met to discuss the question, "Whether public ownership is the objective or the means." Some people at the meeting held that we must correct the "lopsided view that takes public ownership as the mainstay," that we "must rethink taking public ownership as the mainstay," and believed that "taking public ownership as the mainstay need "not necessarily be an absolute numerical quota, but should be manifested chiefly in quality". After the meeting, an economist also wrote to advocate that the rate of public ownership should "not necessarily occupy over 50 percent." For if so, it will be unfavorable to developing the market economy and productive forces. Some people even think that it would be fine if the level of public ownership could be kept at about 20 percent, controlling some key industries and a very few large enterprises.

Under the precondition of insisting on taking public ownership as the mainstay, we believe that the crux lies in just how much should each economic sector occupy, one that demands continuous study and control. But if we artificially reduce public ownership to less than 50 percent, in a situation where the other economic sectors enjoy favorable policies, the dominant position of public ownership must be weakened, and may even be hard to maintain. It is surprising, but people who hold this opinion are forgetting the simple truth that "every mass must be expressed in a certain quantity." Their motivation aside, the fact remains that it must weaken and shake the dominant position of public ownership.

We really should discuss the necessity of insisting on the dominant position of public ownership under the socialist system, both theoretically and practically.

First of all, is public ownership or private ownership more suitable to the need to develop modern socialized productive forces?

Marx and Engels resolved this question long ago, but since some people often dispute the point, I must take time to discuss it again. Marxism tells us that the historical unfolding of the basic contradictory movement possessed by capitalism's production has to lead to "incompatibility between socialized production and capitalist ownership". This contradiction contains the "seeds of all conflicts" in modern capitalist society, and "forces the capitalist class to treat productive forces more like the productive forces of society within all possible limitations inside the capital relationship." (*Selected Works of Marx and Engels*, Volume 3 pp 311, 317). To completely resolve this contradiction, "it has to admit the social nature of modern productive forces, so make production, occupation, and exchanging patterns appropriate to the social nature of the productive materials. This can be accomplished only by the public and direct occupation by society of the productive forces which have developed to a situation of being unsuitable to other management than social management." (*Selected Works of Marx and Engels*, Volume 3 pp 318-319). That is, replacing capitalism with socialism, replacing the private ownership of capitalism with the public ownership of socialism. The objective necessity and historical justification of establishing and developing socialism is rooted in this. Practices shows that the public ownership of socialism matches and impels the development of modern socialized productive forces more than the private ownership of capitalism does. The former Soviet Union rapidly accomplished national industrialization in just 10 years; in addition, the great achievements of modernization construction since the establishment of new China 40 years ago, and especially in the past decade, all prove that only the public ownership economic relationship of socialism is the vital economic system which suits and impels the development of modern socialized productive forces. It also should be the scientific belief and practical principle of all Marxists.

Second, insistence on the dominant position of public ownership must be in deed as well as word, not merely admitting orally that "public ownership is in the dominant position," while shaking and damaging its dominant position.

China is a socialist country; we must conduct its economic system with public ownership of the means of production, for without public ownership, we will be unable to protect the working class's leadership of the nation (through the Communist Party of China), since its power to lead will lose its economic base. So, to adhere to socialist public ownership, we must consolidate and develop public ownership, and absolutely not damage it. Now, some people in the backs of their minds constantly view public ownership as an obstacle to developing the market economy and productive force, they try everything they can to weaken and nibble away at public ownership, which causes considerable loss to state-owned assets. There are estimates that at present, more than 100 million yuan in state-owned assets are

being lost every day, "changing from public assets to private." Some cadres and economists believe that state-owned enterprises are burdensome, basing this view on such things as low economic efficiency and serious losses brought on by such things as unfair economic competition, and try hard to abandon them, urging their number be reduced. The idea of a so-called reduction in public ownership to less than 50 percent comes from this background. These comrades have not analyzed the complex reasons for state-owned enterprise losses, they do not seriously study countermeasures, they make no attempt change the operational system to create a modernized system of public ownership of enterprises. Actually, they simply conclude that the reason why these enterprises suffer loss is that public ownership itself is no good, concentrating their hopes and excitement on privately-owned enterprises. So, as such situations appear, some economists and responsible cadres even advocate auctioning off State-owned enterprises on a large scale to display their "ideological liberation" and "bold reforms". In April of last year, the mayor of a large city publicly announced that "except for those enterprises which the State must control, most enterprises can be auctioned off." The director of the system reform committee in that city said, concerning the question of auctioning enterprises, "not only enterprises which suffer losses can be auctioned, but efficient enterprises as well; not only small enterprises but the larger state-owned enterprises also." Further, "as long as there are buyers, it doesn't matter whether they are Chinese businessmen or foreign businessmen, natural persons or legal persons." This daring to auction off state-owned enterprises is really wild! Of course, for that portion of state-owned enterprises which are inefficient, small scale, and appropriate for distributed operation, we can change the operational system through leasing, contracts, and auctions of property rights. But it is really difficult to agree with those who advocate selling the great majority of state-owned enterprises, including even the efficient and large scale ones. We have to ask what right have they to shake and damage public ownership's dominant position as they please?

It must be obvious that if we cut the rate of the public ownership economy to less than 50 percent, the nature of China's economy will change. Not only will it be impossible to maintain the dominant position of public ownership, but the socialist nature of the economy will change as well. If private enterprises occupy more than half of the gross social assets and gross social output, that means the majority of social surplus labor will be occupied by the private sector. In such circumstances, can we still say the working people have been liberated from the labor hiring system? Can we still say that the exploiting class has been wiped out? Can we still talk about eliminating polarization, and growing prosperous together? Moreover, if a private ownership economy possesses more than half of the private assets in the gross social assets, it must automatically result in division and concentration under the law of value, which then must produce a privately run enterprise clique with great

economic power. In this situation, what kind of administrative and legal regulations does the state have which is strong enough to stop the emergence of an exploitative class? Can the people's regime remain in the hands of the people? Obviously, if a socialist nation permits the privately owned economy to exceed the power of the public ownership economy, the economic, political, and social consequences brought on by this will be dreadful to contemplate.

Therefore, adherence to the dominant position of public ownership both quantitatively and qualitatively is the economical base and major framework of socialism with Chinese characteristics. We can say that if public ownership is not in the dominant position, there can be no socialist market economy, nor can there be socialism. We should have no wavering and concessions on this point. All expressions and practices which will weaken and shake the dominant position of public ownership must be rejected.

Third, adherence to "taking public ownership as the major body" while confirming and maintaining the "supplementary" status of the nonpublic ownership economy are two related aspects of guaranteeing that our socialist economic structure is equitable.

For more than a decade, carrying out reform and opening while adjusting the economic structure has resulted in considerable development of the individual economy, the privately-run economy, and the foreign capital economy, and these have played a necessary and good "supplementary" role. We can anticipate that in the distant future, these non-public ownership economies will have greater development. Based on forecasts by relevant departments, given the current developmental trends of the non-public ownership economy, by the year 2000 there will be 25 to 30 million individual industrial and commercial families, and privately-run enterprises. These will have as many as 50 million employees, as much as 350 billion yuan in self-owned capital, and will occupy over 20 percent of the gross industrial output. Annual retail sales value of social goods will be more than 600 billion yuan, occupying over 30 percent of the gross social retail sales value. So we can see that in China the developmental trend of nonpublic ownership is very swift and strong.

Meanwhile, it is clear that in addition to its positive and necessary supplementary role, the nonpublic ownership economy also tends to self-development. Non-public ownership enterprises, especially a few large-scale privately owned enterprise groups which grow more mature by the day, are calling for the maximum possible extension of their economic power. They are dissatisfied with their "supplementary" status as compared to public ownership's dominant, and seek to "exceed" that position; as a theoretical reflection of this economic demand, some people employ such terms as "diversified economic structure," "diversified investment," and "diversification of the main entity of interest" to describe the current situation of China's economical life. In fact,

statements of this sort are demands that the nonpublic ownership economy have equal status with the public ownership economy. This is an implied challenge to public ownership's dominant position. But some of our economists have rationalized the content of this kind of "challenge," even advocating 50 percent or more non-public ownership. If the system of nonpublic ownership "exceeds its position" it will mean that the main body of the public ownership system will "lose its position." Question: when the economic power of non-public ownership exceeds over half of the whole economy, can you still regard it as a "supplement" to the socialist economy? When the private ownership economy occupies the greater part of national production and operations, where is the "major" position of the public ownership economy?

Fourth, public ownership enterprises should play a leading role in the entire domestic economy in quantity, mass, and function. The state-owned big and medium-sized enterprises should control key departments and the advanced, new technical industry and basic industries, play both an advanced and a leading role in technical development and applications. They must have

advanced enterprises rules and scientific management, and they must have higher productivity and good economic efficiency. The state-owned big or medium sized enterprises usually have the advantages of large scale, strong capabilities, advanced facilities and a concentration of talented people, so they should be capable of fulfilling the role of backbone and model. Of course this leadership work can be accomplished only in fair market competition. At present, for reasons which are very complicated, and due largely to a rigid system and an unfair competitive economic environment, some state-owned big or medium-sized enterprises are in difficult straits, with declining economic efficiency, a talent drain, poor sales, and shortages of capital. All of these problems can be improved gradually, but only through accelerated change in the operational system to create modern, public ownership enterprises rules and creating a fair competitive environment which suits the requirements of a market economy. It is only by carrying out further reform, facing the markets, strengthening scientific management, and pushing scientific and technical progress will the public ownership enterprises regain their youth and vitality.

**NATIONAL AFFAIRS, POLICY****Review of 1993 Economy**

**94CE0320A Beijing ZHONGGUO JINGJI TIZHI GAIGE [CHINA'S ECONOMIC STRUCTURE REFORM] in Chinese No 12, 23 Dec 93 pp 14-16**

**[Review of 1993 Economy]**

[Text] The Chinese economy continued its rapid growth in 1993 with a projected GDP gain of about 13 percent for the entire year. Macroeconomic regulation and control was highly effective and economic disorder has begun to correct itself. Overall things were moving in the right direction.

Macroeconomic regulation and control has begun to pay off. The national economy continued its fast growth.

The year 1993 of dramatic change for the Chinese economy. A previously over-extended macroeconomic climate gradually gained some breathing room as it achieved a state of equilibrium. At the beginning of the year, everybody was overflowing with enthusiasm, jockeying for opportunities, scrambling for fast growth, and trying to get its projects off the ground. The scale of construction was over-stretched and the economy raced ahead; the GDP expanded 14.1 percent in the first quarter compared to the same period a year ago. All social reproduction sectors showed signs of strong growth. At the same time, there were signals of stress in the macroeconomic climate. The government budget was out of balance, as were banking, materials supply, and foreign exchange. There was anxiety in every quarter that the economy had become overheated. In the second quarter, the economy continued its feverish growth, propelled by the twin engine of high investment and an inflated money supply. It was a time when things were happening fast and big. All leading economic indicators shot up. Meanwhile, inflationary pressures intensified and market prices climbed 10 percent, a sign that we had entered the danger zone. There was a feeling in all quarters that the economy had deviated from the right track.

Since the beginning of the third quarter, the central government unveiled a string of emergency measures designed to tighten macroeconomic regulation and control, which soon were having some effects on economic life as demonstrated mainly in these three ways:

1) Economic disorder has been corrected somewhat. The macroeconomic climate achieved a measure of stability and speculation of all kinds was beginning to be damped. To begin with, the financial order improved and the financial situation stabilized in the course of time. Savings deposits rose notably, indiscriminate inter-bank borrowing and fund-raising and the arbitrary establishment of financial institutions have been checked. Second, there were improvements on the budget and tax collection front. The drive to enhance revenue was making headway. Revenue grew 11.4 percent in the first 3 quarter compared to 1.4 percent in the first two

quarters of the year. Third, the circulation order also improved; the prices of capital goods stabilized, with some actually drifting downward. At present the prices of steel used in construction have dropped to 3,050 yuan from 4,100 yuan per ton in June and the falling trend continues to hold. Fourth, the stock market, futures market, real estate market, and development zones were put under more regularized management. The number of development zones in the eight coastal provinces, regions, and municipalities fell from 1,200 to a little over 200. Real estate prices in the coastal areas dropped 20 percent or so.

2) The overheated economy began to cool off while continuing to grow at a brisk pace. Industry, which was expanding at the explosive rate of 30.2 percent in June, grew 25.2 percent in July, 23.4 percent in August, and a mere 19.1 percent in September. Second, the investment explosion has been brought under control. The scale of investment has now been reduced to 11 billion yuan or so. Third, the market is stable but active. Total social commodity retail sales rose 23.8 percent and 21.6 percent in August and September, respectively, down from 28.4 percent and 26.5 percent, respectively, in June and July. The decline in sales was even more striking in the capital goods market. In the first half of the year, capital goods sales rose almost 50 percent. In the third quarter, however, sales were expanding at just 27.3 percent. Fourth, government spending was being held under check. Total government expenditures increased 12.5 percent in the first half of the year and 1.3 percent between July and September, bringing the increase rate for the entire first three quarters to 7.3 percent. Fifth, the growth of the money supply slackened markedly, indicating a softening of latent inflationary pressures. The money supply was actually off by 19.2 billion yuan between July and September compared to the same period in the preceding year.

3) Reform and the open policy deepened steadily. First, reform was in full swing. The macroeconomic reform plan was under way across the nation. Market reform was making striking progress nationwide. The transformation of the enterprise operating mechanism has begun. Market regulation is now playing a much bigger role. Institutional construction is being intensified. Second, the open policy is alive and well. The utilization of foreign capital is growing and more foreign firms are investing in China. Both exports and imports increased steadily, amounting to \$129.5 billion in the first three quarters, up 17.7 percent from the same period a year ago. Momentum remained strong on the tourism front, with both the number of foreign tourists visiting China and the amount of foreign exchange earned up sharply.

But China still faces severe economic problems today, notably in these three areas:

1) Market prices continued to rise rapidly in 1993, the third year since reform began that the inflation rate

topped 10 percent. At the moment prices are still surging ahead even as economic growth is slackening. This is why:

a) Prices are a delayed indicator. The current surge in prices is a delayed and synergistic reflection of what happened earlier—the feverish growth of the economy, a liberal monetary policy, and bold, extensive steps in price reform. First, the price level is related to whether the economy is up or down. This happens in developed nations as well as developing ones. Every time the economy picks up steam, so does inflation. Turning to the money supply, the money supply narrowly defined (M1) increased more than 30 percent in 1988. Correspondingly, prices rose sharply also. In 1990, when M1 expanded less than 10 percent, price increases also moderated. Beginning in 1992, as M1 started ballooning at 20 to 30 percent, peaking at 41 percent in April this year, price increases followed suit as well. By August the expansion of the money supply had slowed to 19.7 percent, a trend which is expected to be reflected in the price level beginning in the second quarter of next year. As for the magnitude of reform, by late last year 90 percent of the prices of consumer goods, 80 percent of the prices of capital goods, and 95 percent or so of the prices of import and export commodities on the market were regulated by the market. Commodity price reform, it can be said, was basically completed. When reform is this far-reaching, it will inevitably have an impact on the price level at some point in the future. As price reform slows down, its delayed effects will also moderate, along with its pressure on market prices.

b) The current market price situation is inseparable from the structural differences in commodity price increases resulting from the differences between commodity consumption elasticity and consumption pattern. On the one hand, consumer goods differ in consumption elasticity and hence the magnitude of price increases. On the other hand, differences in the consumption pattern also impact prices. As incomes rise, the pattern of consumption goes upscale. Judging from the market these days, it is the prices of commodities at the upper end of the market, including novelty items and new-style and new-design products, such as name-brand color television sets and fashion, that have risen the most, mainly as a result of high-consumption by high-income groups. People get the feeling that prices are rising rapidly and substantially. The two factors mentioned above reflect both cost-driven increases and demand-led increases.

c) The substantial depreciation of the renminbi. Early in the year the renminbi was changing hands at the rate of about \$1 to 7 yuan. By June, it was \$1 to 11 yuan. At the moment the exchange rate has stabilized at \$1 to 8.8 yuan or so. Depreciation is one of the reasons behind the latest round of sharp price increases. With the costs of imports rising sharply, people lose confidence in the Chinese currency and the market becomes jittery, driving up prices. In short, price increases these days are the result of both normal and abnormal factors that call for careful detailed analysis.

2) The adverse effects of macroeconomic regulation and control are making themselves apparent, primarily in these four ways:

a) Enterprises are strapped for funds and the shortfall is substantial. Since last June enterprise deposits have been slipping month after month. Between June and July deposits fell 73.3 billion yuan. By the end of August enterprise deposits had risen 4.1 percent, close to the danger point.

b) There was a dissociation between production and sales and more and more bills were not being paid on time.

c) More and more enterprises have stopped production in part or in whole. Not only are large- and medium-sized state enterprises operating under capacity, but a number of small enterprises also do not have enough orders to fill their books. The idling of production capacity is a problem common to both the processing industry and raw materials industry.

d) Declining profitability. Nationwide profits realized by state enterprises within the budget dropped 22.1 percent in August from the level a month ago and fell another 10 percent at least in September compared with August. The proportion of money-losing enterprises rebounded to 36.7 percent.

3) The imbalance in economic development remains pronounced and progress in structural adjustment has been less than obvious.

a) Unevenness in regional development widened further as east China continued to pull ahead significantly of central and western China in terms of production, construction, consumption, and income. In the first three quarters, the coastal region accounted for over 60 percent of the increase in production, construction, and consumption nationwide.

b) Different sectors of the economy continued to develop at a markedly uneven pace. Still mired in stagnation, agriculture remains proportionately out of balance with industry. In transportation, energy, and other major raw materials industries, demand continue to outstrip supply. The "bottleneck" industries continue to hamper national economic development.

c) The inequitable distribution of income between urban and rural households deteriorated. The incomes of rural households inched upward and the rural market was not yet a reality. In contrast, at a time when "eating off the big rice pot" is still with us, township residents "eat off two rice pots"—the state and the enterprise—and profit themselves at the expense of the public in a variety of imaginative ways. Their incomes continue to soar, widening the gap with their rural counterparts.

d) The imbalance in international payments worsened. On the one hand, exports grew only modestly while imports shot up, exacerbating the gap between exports and imports and giving China its first trade deficit since

1990. The deficit from January through September amounted to \$7 billion and, barring any effective actions, the nation's trade deficit for the entire year will certainly be even bigger.

The variety of imbalances mentioned above leaves no doubt that irrationalities in the economic system and operating mechanism are still marked. Not only will these imbalances hobble economic development in a big way in the near future, but they are also a hidden danger that may destabilize the entire economy. If they are not adjusted in time but are allowed to grow unchecked, they may greatly jeopardize the sustained, rapid, and healthy development of the Chinese economy and undermine social stability.

**Overall assessment:** The national economy stabilized and cooled off in 1993. There was no sign, however, of a sharp deceleration as it continued to grow at a fast pace. The economy expanded 13 percent or so for the entire year, investment grew by more than 40 percent, and social commodity retail sales rose over 20 percent. Correspondingly, retail prices jumped more than 10 percent, probably about 13 percent, and China may end the year with its international payments on the minus side. In a word, the overall pattern of economic development in 1993 can be summarized as the "double thirteen," that is, a growth rate of about 13 percent and an inflation rate also of 13 percent.

Looking ahead toward 1994, the national economy will continue to grow strongly because the four basic factors driving the Chinese economy will remain. First, a large population gives the national economy a necessary boost in the form of a huge domestic demand. Second, the imbalance between the different sectors of the economy and the relative backwardness of the basic industries and the infrastructure mean that there is an urgent need for accelerated construction, which is a powerful engine of economic development right now and will also create the conditions for continuous economic growth further down the road. Third, reform will continue to be a major boost to the economy during the transition from the old system to the new. Production potential suppressed under the old system will continue to be released for some time to come. Fourth, the fundamental national policy of opening to the outside world. By further integrating the Chinese economy into the international economy, we will be able to continue to import and assimilate advanced foreign technology and managerial experience and absorb institutional resources to make up for our shortcomings, thus enhancing the domestic economy's development capacity. The economy is projected to continue to grow at more than 10 percent in 1994, with market prices rising 10 percent or so as well.

#### **Characteristics of Consumer Goods Market Reported**

94CE03564 Shanghai SHANGHAI JINGJI BAO  
in Chinese 15 Feb 94 p 3

[Unattributed report: "Five Major Characteristics of the Functioning of the Consumer Goods Market Nationwide"]

[Text] 1. The trajectory of the movement of the total volume of retail sales is wavelike. Business is not really slack during slack seasons and is booming in busy seasons. A prolonged peak-selling period is a prominent characteristic of the consumer goods market as a whole. Last year the total volume of retail sales of the country as a whole was 1,359.3 billion yuan, an increase of 23.6 percent over the previous year, thus growing 6.8 percentage points faster than the previous year. An adjustment of the figure for inflation shows that the amount of physical goods increased by around 9 percent. In terms of development dynamics, the growth rate was 16.2 percent for the first quarter, 27 percent for the second quarter, 23.9 percent for the third quarter, and 26.9 percent for the fourth quarter.

2. The consumer goods market is basically characterized by a situation in which supply exceeds demand, and selecting good merchandise to purchase has become people's usual consumption behavior. According to domestic trade agencies' ranking of the supply and demand situations of 680 commodities in the second half of 1993, supply and demand were in basic equilibrium or supply exceeded demand in the cases of 91.6 percent of the commodities; supply was smaller than demand in the cases of 8.4 percent of the commodities. The supply of light industrial products and most agricultural and sideline products is abundant, mainly because the continued growth of industrial production and the steady development of agricultural production in 1993 has resulted in a situation in which the supply of goods for the market is abundant and in which the total supply of goods exceeds the total demand for goods. For the year, the value of output of light industry increased by 22.3 percent over the previous year, and the ratio of the total volume of retail sales to the value of output of light industry was 1:1.24, slightly higher than a normal year.

3. The rapid growth in effective demand on the domestic market has invigorated the consumer goods market. According to estimates, the per capita living-expense income of the urban residents for the year was 2,323 yuan, representing a 10 percent growth in real terms after being adjusted for inflation; the net per capita income of the rural residents was 880 yuan, representing a growth of around 2 percent in real terms after being adjusted for inflation. The rapid growth in people's income has led to strong demand on the market. Urban markets have continued to boom. "Stressing nutrition in regard to eating, stressing comfort in regard to clothing, and stressing having high-grade goods in regard to articles for daily use" have become a consumption trend prevalent among urban residents. The quality of consumption has been markedly raised, and the transition from the quantity type to the quality type is very obvious.

4. All kinds of market actors are developing rapidly, and the regulating role of the market has been further enhanced. With the increasingly important role of the market mechanism in the circulation sphere, market competition has intensified, and the various sectors'

shares of business have continued to change. A prominent manifestation of the change is the decreasing of the state commerce sector's share of business and the increasing of the nonstate commerce sector's share of business. The pace of price reform has quickened. Currently procurement and selling prices of grain and oil have been decontrolled in over 90 percent of the regions. Prices for services such as those provided by hotels, bathhouses, and barber shops and repairs have also been further decontrolled, and the market-regulated proportion has continuously increased. According to statistics, the share accounted for by market-regulated prices of the total volume of retail sales has increased to around 95 percent; state-set prices account for only 10 percent of the total volume of agricultural products sold by the peasants.

5. Policy factors have large impacts on the consumer goods market. Since the beginning of last year, the state has adopted some consumption-stimulating measures, such as decontrolling grain and oil prices in most regions, raising the merchandizing business tax, and adjusting exchange rates; as a result prices of some goods have increased, and people have again demonstrated the consumption mentality characterized by an inclination to purchase goods for value-preservation purposes; media discussions of the postponement of "the resumption of GATT membership" have released the purchasing power which has been accumulated over a long time.

#### State Issues Policy Adjustments on Enterprise Groups

94CE0356B Nanjing XINHUA RIBAO in Chinese  
5 Feb 94 p 6

[Unattributed report: "The State Issues Policy Adjustments Regarding Enterprise Groups"]

[Text] Recently the relevant agency of the state issued five adjustment policies on enterprise groups:

1. The central government directly regulates and controls the enterprise groups with separate plans nationwide, breaking down the preexisting confines resulting from enterprise groups' being owned by the various sectors and localities.

2. The leadership system of enterprise groups in cities with separate plans assumes three forms: first, the state establishes its representative bodies such as boards of directors and management committees which will exercise leadership over the collectives with separate plans; second, enterprises based on the joint stock system may use the system of general manager responsibility under the leadership of the board of directors; and, third, enterprises based on all-people ownership may use the system of general manager responsibility under the leadership of the board of directors.

3. The state will give some financial means to enterprise groups which are covered by the trial operation of the separate plan system. Those enterprises which meet the

requirements may create financial companies, and may issue bonds and stocks domestically with the necessary approvals.

4. Enterprise groups covered by the trial operation of the separate plan system are granted some autonomy regarding foreign trade operations.

5. The top executives of enterprise groups covered by the trial operation of the separate plan system have the right to give approvals on matters of production, business operation, and circulation. (Excerpted from XINXI DAGUAN BAO)

#### PROVINCIAL

#### GATT Potential Impact on Shanghai Industries

94CE0354C Shanghai SHANGHAI JINGJI BAO  
in Chinese 18 Feb 94 p 2

[Report by reporter Zhen Minwei and correspondent Wang Qingqiu: "An Authoritative Study Shows: The Resumption of GATT Membership Will Have a Strong Impact on Shanghai's Industries"]

[Text] The footsteps of "the resumption of GATT membership" which was once likened to a "wolf" can finally be heard clearly now. The time of "dancing with the wolf" is no longer far away. If so, what impact will "the resumption of GATT membership" have on Shanghai's industries which account for 60 percent of Shanghai's GNP? The result of an authoritative study, conducted in Shanghai, of "the resumption of GATT membership" shows: that "the resumption of GATT membership" will have a strong impact on Shanghai's industries.

The Group Studying the Impact of "the Resumption of GATT Membership" on Shanghai's "Industries and the Policy on Dealing With the Impact," composed of experts from the city's economic commission, foreign trade and economic relations commission, and customs administration and 12 industrial bureaus as well as other institutions, believes: From a long-term perspective, "the resumption of GATT membership" is beneficial to Shanghai's industries. However, its impact and disruptive effects will be very strong, and the intensity involved should arouse great attention from all sectors.

According to an analysis of 286 major products produced by the 12 industrial bureaus, because of the effects of tariff reductions and the abolishing of import licenses, there will be disruptive effects and impacts on 72 percent of those products. The most severe disruptive effects will be on such products as the Santana passenger car and computers and their peripheral equipments. There will be beneficial effects on the development of 80 products, mainly giving them price advantages.

Also, according to an analysis of 1,074 state-owned enterprises which are supervised by the 12 industrial bureaus (corporations) and covered by the local budget,

there will basically be no impact on 46.83 percent of the enterprises, and there will be impacts of different intensity on 29.42 percent of the enterprises; there will be very severe impacts on 9.86 percent of the enterprises, some of which will even close down as a result. Those enterprises are mainly concentrated in such industrial bureaus as the Light Industry, Textile, Medical Supply, No 2 Light Industry, and Instrument Bureaus.

According to an investigation of 48 industries, "the resumption of GATT membership" will have beneficial effects on 23 percent of the industries including the diesel engine, light-industry machinery, metal-cutting machine tool, threaded steel, refractory materials, electric lighting equipment, small household electric appliance, and household hardware industries. There will be large adverse impacts on such industries as the automobile, radio and television, communication equipment, engineering machinery, bearing, stainless steel, refrigerating and air-conditioning equipment, wire, chemical fertilizer, electronic parts, automation instrument, clock and watch, household chemicals, paper-making, refrigerator, copper product, and aluminum product industries.

Based on comprehensive and in-depth investigations, the authoritative study group reached its conclusion on the overall impact of "the resumption of GATT membership" on the industries: From an overall perspective, "the resumption of GATT membership" will be beneficial to Shanghai's industries. This mainly refers to the prospects that after "the resumption of GATT membership" a number of Shanghai's industries which are competitive can increase their exports; that there can also emerge a more extensive resource-allocation environment with regard to the provision of energy and raw materials which have all along been in short supply; and that it will also be possible to make stepped-up efforts to develop high- and new-technology and high value-added industries in the next few years by exploiting the provisions for protecting infant industries and the most-favored-nation treatment. Even more important, "the resumption of GATT membership" will stimulate Shanghai's industries to accelerate their becoming capable of meeting international standards with regard to product prices, operating mechanisms, technological standards, and industrial structure, thereby speeding up the movement of Shanghai's industries toward modernization.

It is unavoidable that the high- and new-technology industries and priority-development industries will encounter severe challenges. Shanghai's high- and new-technology industries and priority-development industries started late, and are not yet in a situation characterized by economies of scale; some of them may die young.

That long-range impacts and disruptive effects are more severe than near-term ones will become a fact. In the near term, Shanghai's labor-intensive products will retain some competitive advantages on the domestic and external markets; the patents on most imitation-based goods have already expired, and therefore such goods

can continue to be produced; some high- and new-technology products will receive protection for a time, but once time is up there will be growing disruptive effects on those industries and their products.

There will be a double disruptive impact on the basic parts, accessory, and raw materials industries. This is, on the one hand, because of the disruptive effects on them produced by the impact of "the resumption of GATT membership" on the main parts industries, and, on the other hand, because of the disruptive effects on them produced by the importation of parts, accessories, and raw materials after "the resumption of GATT membership."

Nevertheless, the intensity of the disruptive effects produced by "the resumption of GATT membership" will in the end change with the development of the market economy. This is the final conclusion presented by the report on that authoritative study, carried out in Shanghai, of "the resumption of GATT membership."

#### Shaanxi Economic Performance, Plans 94CE0324A Taiyuan SHANXI RIBAO in Chinese 8 Jan 93 p 1

[Article by Correspondents Ding Jinchuan (0002 2516 1557) and Fan Jianghong (2868 3068 3163): "Provincial Economic Work and Rural Work Conference Convened Yesterday. Provincial CPC Committee Secretary Hu Fuguo (3170 1381 0948) Attends Conference. Acting Provincial Governor Su Wensheng (1327 2429 4141) Makes Report. Deputy Provincial Governor Guo Yuhuai (6753 5940 2037) Relays Spirit of National Economic Work Conference"]

[Text] A provincial economic and rural work conference was convened on 7 January at Taiyuan for the purpose of implementing the spirit of the National Economic Work Conference and the recently concluded Seventh Plenary Session of the Sixth Provincial CPC Committee, as well as to define the general outlines of economic development today and for some time to come. In the morning, provincial CPC Standing Committee member and provincial governor Guo Yuhuai relayed the main content of the national economic work conference. In the afternoon, Sun Wensheng, the acting provincial governor, gave a report titled, "Seize Opportunities to Hasten Reforms to Advance the Province's Sustained, Rapid, and Healthy Economic Development."

Provincial CPC Committee secretary Hu Fuguo, deputy secretary Liang Guoying [2733 0948 5391], provincial people's congress chairman Lu Gongxun [4151 0501 8113], and other provincial leaders attended the conference as follows: Zhang Weiqing [1728 4850 1947], Feng Zhimao [7458 5347 5399], Zheng Shekui [6774 4357 1145], Wan Lianghai [8001 5328 6624], Wang Yunlong [3769 0061 7893], Cui Guangzu [1508 0342 4371], Wu Dacai [0702 6671 2088], Wang Wenxue [3769 2429 1331], Liu Zemin [0491 3419 3046], Peng Zhigui [1756

5268 0964, Wu Junzhou [0702 0193 3166], Zhang Changzhen [1728 7022 3791], Lu Zhengxi [64242973 6007], Jin Chengxu [7246 2110 1645], Li Yuzhen [2621 3768 5271], and Zuo Xiang [1563 4382]. CPC committee secretaries, commissioners, mayors from all the province's prefectures and cities, leaders of provincial departments, county CPC committee secretaries and county magistrates from all counties, as well as leaders of all prefecture and city bureaus, committees, and offices concerned attended the conference.

In his report, Sun Wensheng emphasized several points concerning the province's economic work and reform tasks for 1994. First, he spoke about economic work during 1993 and the current situation in the province. He said that in 1993 new achievements had been scored in economic construction, reform and opening to the outside world, and work in all regards. These were manifested mostly in the following: 1) Sustained and rapid growth of the national economy, with across-the-board growth of the three major industries. According to preliminary estimates, the province's GNP for the year reached 62 billion yuan, an approximately 12 percent increase over 1992. The rural economy saw all around increase. Gross output of grain reached 9.902 billion kilograms, up 15.4 percent from 1992 and exceeding the all-time high. Township and town enterprise gross output value increased by more than 70 percent. Industrial gross output value for the year (not including industries at the village level and below) totaled 62.6 million yuan, up 11 percent from 1992. Tertiary industries grew very rapidly. Social commodity retail sales were up 14 percent over 1992. 2) The "three constructions." In the important project construction realm, as of the end of November, cumulative investment in capital construction in the main areas of energy, transportation, communications, water conservancy, and raw and processed materials production totaled 8.81 billion yuan, and investment in technological transformation totaled 2.62 billion yuan. This was a respective 37.3 and 34.6 percent increase over the same period in 1992. 3) Results were achieved in macroeconomic regulation and control, marked improvements occurring in finance and banking and fiscal revenue procedures. Overly rapid rise in prices was held down, and the province's fiscal revenues for the year totaled 6.7 billion yuan, up 16 percent from 1992. 4) The intensity of economic system reform increased, substantial advances being made. The 14 business decision making rights were substantially applied in most enterprises. Pilot projects for the transportation of operating mechanisms moved ahead smoothly in 100 large- and medium-sized enterprises, the number of enterprises instituting internal "three systems reforms" totaling more than 3,000. The number of share system enterprises increased from 64 in 1992 to 260 in 1993, the amount of equity capital totaling 3.5 billion yuan. The Fenjiu Share Corporation's open issuance and listing of share succeeded. Joint stock system enterprises proliferated in cities and in the countryside throughout the province. 5) Achievements in opening to the outside world to bring in and use foreign

capital were rather outstanding. Eight economic development zones are operating in the province. The four province-level development zones in Taiyuan, Datong, Changzhi, and Fenglingdu signed 220 project contracts for a total investment of 1.5 billion yuan. The province's foreign trade exports earned a total of \$634 million, up 9 percent from 1992. 6) Heartening advances were made in linking scientific and technical education to the economy, the enthusiasm of scientific and technical personnel for making a contribution on the main battlefield of economic construction finding further expression thereby. The provincial CPC committee and government publicized the experiences of Yangquan, Jincheng, and Luliang prefectures in linking "agriculture and scientific education." Despite a funds shortage, funds were appropriated for the payment of special technical vocational allowances to highly qualified intellectuals, and to increase the wages of middle and primary school teachers. 7) The income of both city and country-side residents further increased, peasant per capita net earnings exceeding the 70 to 80 yuan increase set at the beginning of the year. The per capita income available for living expenses of city and town residents reached 1,680 yuan, an 18 percent increase over 1992. Peasant per capita income was 718.33 yuan, up 14.6 percent from 1992.

Second, in talking about economic development goals and the work emphasis for 1994, acting provincial governor Sun said that in accordance with the spirit of the Third Plenary Session of the Fourteenth Party Congress and the plenary session of the provincial CPC committee, the guiding thought in the province's economic work during 1994 is as follows: to take the building of a socialist market economic system as the goal, to seize new opportunities for reform and development, to blaze new trails in the enterprise system, to expand the opening to the outside world, to accelerate structural readjustments, to promote technological progress, to continue the further building of the "three foundations," to strive to improve overall economic returns, to improve further the people's livelihood, and to promote sustained, rapid, and healthy economic development throughout the province. By way of following this guiding thought, the provincial government has preliminarily set the main economic development goals for 1994. The provincial CPC committee and the provincial government believe that attainment of these goals requires adherence to the "three principles," and close attention to the "five tasks."

The first of the three principles is to give priority to economic returns. Attention to economic returns is necessary to the operation of a market economy. With reform of the taxation and finance and banking systems, and commercialization of the specialized banks, a large number of not well run enterprises making poor returns are facing a grim situation in which the banks provide no loans, the treasury provides no refunds, and there are no tax reductions or exemptions. Unless they improve their earnings, they are in danger of having to halt production

or close their doors. This may give rise to social problems. Therefore, the more the market economy develops, the more the main emphasis in economic work must be on improvement of economic returns. The second of the three principles is making scientific and technical progress first. With reform of the investment system, enterprises will increasingly become main investment entities. If they continue to follow the old road of expansion rather than internal improvements, not only will finding the money for construction become the greatest problem, but existing concerns—particularly old concerns—will be unable to carry out technological transformation. The most direct and effective means to promote scientific and technical progress is to speed up the technological transformation of existing enterprises, applying new techniques to the creation of new technologies for the development of new products and improve the inherent quality of products. The third of the three principles is balanced and coordinated development. The essence of the development of a market economy is effective exercise of the market's role in the allocation of resources. It cannot be denied, however, that a market economy operates blindly in some respects. When market signals are distorted, in particular, a rush headlong into mass action, redundant construction, and blind competition are most likely to occur. In Shanxi Province, pronounced problems exist in the production, sale, and transportation of coal. Beginning now, governments at all levels must pay close attention to the adoption of policies to provide guidance and needed organizational coordination measures to ensure that output is based on sales and on transportation capacity.

Next, acting governor Sun talked about close attention to the "five tasks" in building the province's economy during 1992. The first of the five tasks is to make increase in peasants income the main goal, making a major effort to develop the rural economy. The main tasks in the province's rural work during 1994 are as follows: to carry out the spirit of the central government's rural work conference, to buttress the basis position of agriculture, to readjust the province's industrial structure, to increase the peasants' income, and to advance all-around development of the rural economy. Leaders at all levels must pay close attention to agriculture, to the peasants, and to rural problems. They must use the spirit of the central government's rural work conference as a vehicle for unifying thinking. Peasant enthusiasm must be rallied, protected, and brought into play. The key issue is paying a high degree of attention to the peasants' interests, doing all possible to increase peasant income. Township and town enterprises must be developed further. Attention must be given to linking the development of township and town enterprises with the development of three kinds of partially or wholly foreign-owned enterprises, private enterprises, and cooperative share enterprises, to linking readjustment of the rural industrial structure and development of high yield, high returns, premium quality agriculture, and linking improvement of the socialized services system and the integration of trade, industry, and agriculture. The

second main task is emphasizing readjustment of the product mix and the industrial structure to hasten industrial development that improves economic returns. Improvement of economic returns and the technical level must be the goals. The future readjustment focus and development orientation of existing enterprises must be spelled out while simultaneously providing active support to the development of new industries and dominant industries. Investment in fixed assets must be prudently redirected, investment in technological transformation increased, investment in some redundant construction and low returns capital construction projects curtailed, the scale of investment in some projects cut back, and priority given to ensuring urgently needed enterprise technological transformation. An enterprise research and development system must be established and strengthened, more attention given to translating research into production. High technology industries must gradually become a new growth point for the province's national economy. The third main task is liberalizing policies to accelerate development of tertiary industries. We must make sure that the state, collectives, and individuals rise together. Specifically, we must use policy guidance for the vigorous development of the non state-owned component of the economy. The fourth main task is continued close attention to the building of key projects and infrastructure. The province's key projects and infrastructure constitute the reserve strength for the entire province's economic development. The tasks have been set; now they must be carried out unflaggingly year after year. In capital construction, energies must be focused on key points. Projects that are inconsistent with national industrial possible, for which market prospects are difficult to predict, and for which no investment is available must be resolutely halted. There can be no yielding on this issue, and positively no vacillation. The fifth task is close attention to fiscal and price matters. A firm hand must be taken on fiscal matters at the very beginning of the year, tax collection and supervision improved according to law to ensure payment of tax revenues into the treasury. At the same time, unnecessary fiscal expenditures must be controlled and held down. The stabilization of prices, and holding down inflation must be given an important place in the economy, the degree of increase in retail prices for the whole year held within 10 percent.

Acting governor Sun also set forth requirements for reform in the province as follows: 1) Do a good job of dovetailing work with reform of the national macroeconomic regulation and control system. 2) Strive for marked progress in the six key fields that the provincial CPC committee has set. 3) Transform functions, actively moving ahead with reform of administrative control organizations.

Finally, acting governor Sun emphasized that reform and construction tasks for 1994 are very strenuous. Smooth completion of all the 1994 tasks will require that leading cadres at all levels diligently study, update their concepts, rally their spirits, do solid work, improve their

sense of urgency, their sense of responsibility, and their sense of mission, and unify and guide the people of the whole province in their efforts.

**Shaanxi Industries Show Rapid Growth in 1993**

94CE0354A Xian SHAANXI RIBAO in Chinese  
15 Feb 94 p 1

[Report by Liang Xi: "Implementing the Provisions and Transforming the Mechanisms, Our Province Achieved Rapid Growth in Its Industrial Economy Last Year—The Value of Industrial Output and Sales Revenues Increased Substantially Over the Previous Year"]

[Text] In the year that has just ended, our province's value of industrial output and industrial sales revenues both increased substantially over the previous year, thereby constituting a good achievement.

Last year, there were fund shortages and the center put into effect a series of macroeconomic control policies and measures. In such a general environment, our province, motivated by Comrade Xiaoping's southern inspection remarks and the spirit of the 14th CPC Congress, conscientiously implemented the Provisions, making focused efforts to transform mechanisms and to resolutely adjust the product mix; as a result the industrial economy continued its good momentum of rapid and healthy development: For the year, the total value of output of industrial enterprises at the township level or above provincewide was 56.963 billion yuan, and the sales value of industrial output was 54.419 billion yuan; both figures represented substantial increases over the previous year. The rate of industrial products sold reached 95.7 percent, an increase of 1.2 percentage points over the previous year.

There were five gratifying changes in our province's rapidly developing economy:

—The growth momentum of heavy industry was strong. Last year the value of output of heavy industry enterprises provincewide increased by 20.3 percent over the previous year, representing a growth rate which was 4.6 percentage points higher than the province's industrial growth rate; heavy industry's share of the province's total value of industrial output increased from 60.5 percent in the year before last to 62.9 percent last year, and the increase in heavy industry's value of output accounted for 78.5 percent of the increase in the province's total value of industrial output.

—The nonstate industrial sector grew faster than the state industrial sector. Last year, the total value of output and sales revenues of collective enterprises in the nonstate industrial sector of the province increased by 31.5 percent and 39.1 percent respectively over the previous year. In this respect the total value of output and sales revenues of township-run industrial enterprises increased by 46.8 percent and 55.3 percent respectively; the total value of output and

sales revenues of the rest of the nonstate industrial sector increased by 81.9 percent and 97.5 percent respectively. For the same period the total value of output and sales revenues of state-owned industrial enterprises increased by only 10.9 percent and 11.9 percent respectively.

—The amount of foreign exchange created by industrial exports increased rather rapidly. Last year the value of industrial exports delivered by the province increased by 27.9 percent over the previous year. In this regard the growth rate for the first half of the year was 16.3 percentage points higher than that for the second half.

—Sales revenues of industrial enterprises covered by the budget on the one hand and profits made by those enterprises and taxes paid by those enterprises on the other hand increased in a synchronized manner. Last year, sales revenues of the province's industrial enterprises covered by the budget increased by 30.1 percent, while profits made by those enterprises and taxes paid by those enterprises increased by 27.5 percent.

—Industrial production and sales of the prefectures and cities increased on a widespread basis. Last year, except for Tongchuan City, the industrial economy of each of 10 prefectures and cities in the province increased over the previous year; the growth rate of industrial sales revenues of each of seven prefectures and cities was higher than the provincial average.

**Shaanxi Economic Communiqué**

94CE0354B Xian SHAANXI RIBAO in Chinese  
20 Feb 94 p 1, 2

[Report by Liang Wei: "The Provincial Government Reports to All Sectors of Society: The Provincial Economy Grew in a Sustained, Rapid Manner, and There Were New Breakthroughs in the Development of All Social Undertakings"]

[Text] The other day Cai Zhaofa, press spokesman of the provincial government, reported on our provincial economy and our province's social development, pointing out that 1993 was the year with the fastest development in the 15 years of reform and opening up.

1. Large steps were taken in the various reforms revolving round the establishment of a socialist market economic system. Rural reforms continued to deepen, and the degree of marketization and commercialization of agriculture further increased. The pace of the transformation of enterprises' operating mechanisms quickened, and there was progress in the experiments on the reform of the property rights system and on the transformation leading to the adoption of the joint stock system. Provincewide 203 enterprises were transformed into joint stock enterprises, and the number of enterprise groups increased to 54. There was faster progress in the work of fostering and building a market system, and price reform proceeded steadily. A market-regulated pricing mechanism was formed in a preliminary way; the

market-regulated share of the province's retail consumer goods reached 97 percent, and prices of many important production materials were gradually decontrolled. The reform of the provincial-level agencies which was centered on transforming the function of government proceeded in an hastened manner. The reform of the housing system proceeded in a comprehensive manner. The reform of the social security system achieved prominent results.

2. The provincial economy grew in a sustained, rapid manner, demonstrating a good momentum of healthy development. GNP for the year reached 60.3 billion yuan, an increase of 12 percent over the previous year. The gross value of industrial and agricultural output reached 97.18 billion yuan, an increase of 19.8 percent. Agriculture produced a good harvest rarely seen in recent years. The total grain output reached 12,156 million metric tons, thereby climbing another step. The total oil crop output constituted a historical record. New steps were taken in transforming agriculture into being characterized by high qualities, high yields, and high efficiency. The total value of agricultural output reached 21.78 billion yuan, an increase of 11.5 percent over the previous year. The value of output of township enterprises reached 37.2 billion yuan, an increase of 48 percent, thereby making last year the year with the highest growth rate among recent years. Industrial production grew rapidly on the basis of the deepening of reforms, the transforming of mechanisms, the adjustment of structure, the efforts to expand market, and the improvement in efficiency. For the year, the total value of industrial output reached 75.4 billion yuan, an increase of 22.4 percent over the previous year; the rate of products sold reached 95.6 percent, an increase of 1.2 percentage points over the previous year. The gross amount of profits made and taxes paid by the province's industrial enterprises covered by the local budget increased by 27.5 percent; in this respect, profits increased by 78.6 percent. The outputs of energy, raw materials, and major industrial products increased substantially. The nonstate sector and relatively less economically developed northern Shaanxi and southern Shaanxi demonstrated strong growth momentums and increased their shares of the overall economy. The overall functioning quality of industry further improved.

3. Fixed-asset investments increased rapidly, and the basic industries and infrastructure were strengthened. In the year fixed-asset investments worth 21.5 billion yuan were completed provincewide, representing an increase of 50.9 percent over the previous year and a growth rate which was 36.9 percent higher than that for the previous year. With regard to a number of key construction projects, especially the 20 "revitalizing-Shaanxi projects" and the 38 capital construction projects started last year, the progress of 22 projects which must be guaranteed was accelerated through the enhancement of the fund allocation work on the basis of categorizing and prioritizing the projects and of clarifying the focus of investment. Other key construction projects proceeded

in a hastened manner or were under active preparation entailing efforts to create conditions that made it possible to start construction as early as possible.

4. Buying and selling both boomed on the domestic market. The total volume of retail sales of the province for the year reached 27.24 billion yuan, an increase of 14.8 percent over the previous year. The consumer goods market moved in a marked fashion, with retail sales reaching 24.55 billion yuan, an increase of 17.8 percent. Over the year investments provincewide in the construction of merchandizing networks and establishments totalled 320 million yuan; 196 markets of various kinds were built, renovated, or expanded; the number of bazaars reached 2,587, and the number of financial, labor service, information, technology, and other markets increased to 298. A new pluralistic situation of large commerce, large circulation, and large markets is emerging.

5. The opening to the outside world further expanded, and external economic and technological cooperation proceeded in a satisfactory manner. In 1993 our province held economic and trade talks in Hong Kong, Singapore, Xi'an, and Shangzhou on separate occasions, producing abundant results. A new situation of multilayered, all-dimensional opening to the outside world is emerging. Over the year a total of \$234 million in foreign capital and loans from such sources as the World Bank and the Asian Development Bank was utilized. Seven hundred and ninety new foreign-funded enterprises were approved, exceeding the number of foreign-funded enterprises established over the 10-odd years. Especially, cooperation relations with some large conglomerates, large corporations, and large enterprises abroad began to be established. There was progress in using foreign capital to conduct transplantation in and transform traditional industries and in establishing joint ventures. Foreign trade exports continued to exhibit a good growth momentum. Exports totalled \$990 million in the year, an increase of 28.6 percent. The tourist industry continued to develop its market internationally, thereby increasing the sources of tourists; the number of tourists from abroad for the year was 458,000, generating 500 million yuan in foreign exchange renminbi; the two figures represented increases of 8.4 percent and 21.6 percent respectively over the previous year.

6. Fiscal revenues increased steadily, and financial order improved. Last year the province's fiscal revenues totalled 6.24 billion yuan, representing 113.5 percent of the annual budget target and an increase of 22.5 percent over the previous year. Although fiscal capability remained in a tight situation, investments continued to be made in agriculture, education, and key construction. The province's fiscal expenditures totalled 7.36 billion yuan, an increase of 13.1 percent. The financial sector made serious efforts to rectify the phenomena of unauthorized short-term financing, unauthorized fund raising, and establishing unauthorized financial institutions. Within the time stipulated, 1.23 billion yuan in incoming short-term financing was repaid, and 1.22

billion yuan in outgoing short-term financing was recovered. The year-end balance of deposits at banks and credit cooperatives reached 61.67 billion yuan, an increase of 11.17 billion yuan over the beginning of the year. Existing loans of various kinds amounted to 76.99 billion yuan, an increase of 13.16 billion yuan.

7. Further progress was made in such social undertakings as science and technology, education, culture, and health. Revolving round economic construction, science and technology work and education work were characterized by energetic efforts to create breakthroughs in important science and technology projects and to utilize results of scientific and technological research. Over the year 1,368 items of achievement of scientific and technological research were produced; of those 216 were of high technology and applied technology items.

The education sector carried out a series of reforms on enrollment planning, disciplinary composition, and the placement of graduates. Regular institutions of higher learning under local jurisdictions enrolled 11,600 regular undergraduate students and technical college students, and secondary technical schools enrolled 23,400 students, representing increases of 22.9 percent and 16.5 percent respectively over the previous year. The provincial school-attendance rate for school-age children stabilized at above 98 percent. Education input continued to increase. Education expenditures authorized by the provincial fiscal budget increased by 23.1 percent over the previous year.

The health sector made the reform of the medical care system the intended breakthrough point. In the rural areas, focus was placed on the construction of three things in the health sector (county-level disease-prevention stations, women's health centers, and township hospitals) and of the three-tier rural health-care networks; in the urban areas focus was placed on reforming the medical care system, improving service quality, and reforming health facilities.

Family planning work produced prominent achievements. According to estimates, the rate of population growth for the year was 11.0 per thousand, a decrease of 1.2 per thousand from the previous year. Such social undertakings as culture, sports, news business, and broadcasting all further developed.

8. The income of the urban and rural residents increased, leading to further improvement in the consumption living standards. The urban and rural residents' per capita living-expense income for the year was 1,920 yuan, an increase of 23 percent over the previous year. With the adjustment for inflation made, the increase in real terms was 7.8 percent, making last year the year with the largest increase since 1987. The peasants' net per capita income reached 653 yuan, an increase of 16.8 percent over the previous year; with the adjustment for inflation made, the increase in real terms was 6.3 percent, also making last year the year with the fastest growth in recent years. The urban and rural residents'

savings increased substantially, creating a year-end balance of 40.38 billion yuan, an increase of 22.7 percent. While the urban and rural residents increased their income and expanded their consumption scale, consumption structure also changed substantially, with large increases in expenditures on clothing, entertainment, cultural and educational goods, and health care. The masses' housing conditions further improved. Over the year 166,000 urban job-waiting persons were placed, and the urban job-waiting rate was kept under 3 percent.

## FINANCE, BANKING

### Foreign Exchange Rate System Reform

#### Features of New System

94CE0373A Beijing JINRONG SHIBAO in Chinese  
8 Feb 94 p 3

[Article by Li Zexing: "The Basic Features of the New Exchange Rate System—The Third of the Serial Reviews of the Reform of the Foreign Exchange System"]

[Text] The unification of renminbi [RMB] exchange rates in 1994 was an inevitable result of the reform and opening up as well as development of our country, and also represented the further deepening of the reform of the foreign exchange management system and exchange rate system of our country in accordance with the overall demands of the establishment of the socialist market economic system, marking the entry of an completely new RMB exchange rate system into the economic arena of China.

#### A. The Basic Features of the New RMB Exchange Rate System

After the unification of exchange rates, the state also carried out corresponding reforms of the mechanisms of exchange-rate formation and adjustment, adopting a unitary, controlled floating rate system based on market supply and demand. This was an important measure to reform the RMB exchange rate system, a measure which was based on referring to the successful experience of Western developed countries, on international practices, and on a full consideration of the realities in our country. The new RMB exchange rate system has the following several features:

1. Exchange rates based on market supply and demand. This refers to the fact that the supply and demand situation and exchange rate level on the foreign exchange market constitute the main factor determining the RMB exchange rate level after the unification of exchange rates. For instance, the exchange rate for the RMB against the U.S. dollar published by the People's Bank of China on 1 January 1994 was the weighted average price of the U.S. dollar on the major foreign-exchange swap markets nationwide on 31 December 1993. In the future, after the unified standardized interbank foreign exchange market is formed, exchange rates on that market will become the main basis for the exchange rates

published by the People's Bank of China. In addition, fluctuations in the exchange rates for the major currencies against the U.S. dollar on the international foreign exchange market are also an important factor determining the exchange rates for those currencies against the RMB.

**2. Unitary exchange rates.** The exchange rates quoted by each designated foreign exchange bank independently on the basis of the exchange-rate medium prices published by the People's Bank of China and the floating range set by regulations will be applicable to settlements involving foreign exchange and RMB and foreign exchange-RMB exchanges (encompassing trade foreign exchange, non-trade foreign exchange, and capital account activities of earning and spending foreign exchange), and will also be applicable to domestic and foreign-funded enterprises as well as Chinese and foreign nationals.

**3. Controlled exchange rates.** This is mainly manifested in the macro-regulation and -supervision of RMB exchange rates exercised by the People's Bank of China through the State Administration of Exchange Control; that is, when there occur large exchange-rate fluctuations on the market, the central bank should intervene in the foreign exchange market through releasing or retrieving foreign exchange, so as to keep RMB exchange rates basically stabilized at an appropriate level.

**4. Floating exchange rates.** This is mainly manifested in two respects: first, the market exchange rates published by the People's Bank of China on a daily basis are floating rates; second, the exchange rates quoted by each designated foreign exchange bank in its foreign exchange transactions with the general public may float within the confines of the market rates published by the People's Bank of China and within the range set by regulations.

The new RMB exchange rate system is based on the taking of full account of the existence of the two foreign exchange markets, the domestic and external markets, and is therefore full of vitality; it is certain to further stimulate our country's opening up to the outside world, develop economic and trade cooperation and contacts between our country and countries around the world, and be conducive to giving greater play to RMB exchange rates' role as an economic lever, thereby promoting the overall reform, opening up, and economic development of our country, and will also constitute an important step toward RMB convertibility. The reform of the exchange rate system has been widely welcomed and highly regarded by people of various circles at home and abroad. In addition, because the state has adopted some transitional measures in the transition period, taking full account of the interests of all sectors of society, the transition has been smooth up to this moment. It can be said that the reform of the RMB exchange rate system has been successful.

#### B. RMB Exchange Rates Will Be Kept Stabilized at an Appropriate Level

After the unification of exchange rates, some comrades have some doubts, believing that the RMB will devalue

in a sustained and significant manner. In my view, such a worry is not well founded.

First, the economic strength of a country is the basis for determining the external price (exchange rate) for the national currency. In 1992-1993 our country had the highest economic growth rates in the world for two years in a row; the steady economic growth enabled our country's overall capabilities to climb another step. The major Western developed countries place high hopes on the Chinese economy. At the same time our country has adequate foreign exchange reserves and enjoys a good balance-of-international-payments situation, while foreign debts are being kept below the internationally recognized safety warning line. This is the material foundation for keeping our country's RMB exchange rates stabilized at an appropriate level.

Second, in accordance with international practices, our country's central bank will use economic means such as currency and interest rate policy as well as direct intervention in the foreign exchange market to regulate the supply and demand for foreign exchange, so as to maintain relative stability in RMB exchange rates. This is the practice common to all developed countries in regard to exchange rate policy. In fact the central bank's intervention in the foreign exchange swap markets in our country in the second half of 1993 was very successful, not only stabilizing market exchange rates but also accumulating rich experience on intervention in the foreign exchange market. Maintaining basic stability in currencies' domestic as well as external prices has always been the main part of the monetary policy of central banks of various countries. Our country will not be an exception either during the process of establishing the socialist market economic system and enhancing macroeconomic regulation and control. Currently, not only is the RMB very welcome in neighboring countries, but its exchange rates are rising. This can also serve as an important basis for judging the future trend of the RMB in our country.

#### Implementing Floating Exchange System 94CE0373B Beijing JINRONG SHIBAO in Chinese 22 Feb 94 p 3

[Article by Jing Xuecheng: "Implement a Controlled Floating Exchange Rate System—The Fourth of the Serial Reviews of the Reform of the Foreign Exchange System"]

[Text] According to the announcement by the People's Bank of China on the further improvement of the foreign exchange management system, the unification of exchange rates, the abolition of the foreign-exchange retention system, the establishment of interbank foreign-exchange trading markets, and the reform of the mechanism of exchange rate formation this time constitute a complete framework of reform of the exchange rate system. Substantial progress has been achieved in nearly

a month's time since the unification of exchange rates: first, the People's Bank publishes market exchange rates on a daily basis; second, the designated foreign exchange banks are all actively studying and implementing the announcement, making preparations for handling foreign exchange settlements and deposits; and, third, independent operators (enterprises engaged in foreign-exchange swap transactions) on the foreign-exchange swap markets have withdrawn from the swap markets, and the framework of transactions between foreign exchange banks is being gradually established. Thus, in terms of unifying exchange rates, the unification of exchange rates has been basically completed in a formal sense; the focus of work in the future should be put on observing the impacts of the reform of the exchange rate system on various areas and on exploring ways of achieving a "controlled floating" exchange rate system.

First, with regard to the use of unitary exchange rates, during the transition period before 1 April, it is necessary to pay attention to the impact of exchange rate adjustments, and it is particularly necessary to study the issue of the extent to which the adjustments affect the macro economy, fiscal revenues and expenditures, and bank credits, thereby affecting the price level. Current analyses are conducted under a situation where the impacts of the unitary exchange rates on various area are not yet clear. In the beginning stage of the reform of the foreign exchange system, only by making further tracking observations will it be possible to find correct operating procedures.

Second, in the "controlled" floating exchange rate system, floating is appearance, representing a normal phenomenon in regard to the trajectory of exchange rate movement and foreign exchange trading; but, it is "control" that is the key issue. How to do a good job of controlling the unitary floating rates so that "they may float but are not chaotic, remaining stable amid movement," thereby providing a stable exchange rate environment for the growth of the national economy, is a new issue facing us. Specifically, if a "controlled" floating exchange rate system is to be maintained, the central bank's intervention in the market is indispensable. It is necessary to study all the practical operational issues, including issues of time, location, and mode of intervention (if it is direct quantitative intervention, there will be the issue of the amount of foreign exchange to be sold or bought) as well as related issues of market analysis and of the understanding of market psychology.

Third, the central bank's intervention in the market entails the issues of determining target areas, of the functioning of the mechanism of market trading, and of operating mechanisms. Unitary exchange rates have resolved the issue of dual exchange rates, but have not provided a stable exchange-rate level which the central bank must maintain in order to ensure the steady and rapid growth of the national economy. Whether unitary exchange rates can be stabilized at an appropriate (perhaps only relatively appropriate) level depends on whether there are a set of indicators used in observing

the economy and market and a set of market transaction mechanisms which can serve to ensure the stabilization of the rates at an appropriate level. Therefore, it is necessary to actively cultivate and develop an interbank foreign-exchange trading market, making it both serve the trading on foreign exchange markets itself and be useful to the central bank in its intervention in foreign exchange markets. In order to establish a unified standardized national interbank foreign exchange market, the People's Bank of China and the State Administration of Exchange Control have decided to establish the Foreign Exchange Trading Center of China in Shanghai; through communications facilities, foreign exchange trading centers in all the major cities across the country will constitute a foreign exchange trading network centered on Shanghai. Furthermore, the central bank will also make the relevant rules and, together with designated market foreign-exchange banks, conduct actual examinations of banks' quoted exchange rates which are based on the central bank's market rates and of the appropriateness of the rates used by banks in their transactions with customers. Ultimately the central bank should formulate a time-point or time-period framework of its intentions regarding the regulation of the foreign exchange market.

Fourth, although "floating" exchange rates only represent appearance and form, they still need to be further studied. The ideal situation of movement of RMB exchange rates should be a situation of some floating in the medium and long term without too much floating in the near term. Exchange rates which remain fixed for a long time will lose the flavor of "floating," and will even become fixed rates. If floating happens too frequently and too violently, RMB exchange rates will be in a chaotic situation governed by no laws, thereby producing many harmful effects on the reform of the foreign exchange system and on the development of the national economy.

Fifth, to further reform the exchange rate system and the foreign exchange system as a whole, it is necessary to carry out supporting reforms in various areas. For instance, exchange rate fluctuations will result in enterprises facing exchange rate risks. All this on the one hand requires that further reform of enterprises' operating mechanisms be carried out so as to establish a modern enterprise system, and on the other hand also requires that our designated foreign exchange banks be able to provide enterprises with risk-avoidance services commonly seen on the international financial market, such as value-preserving forward hedging and foreign currency forward trading.

Sixth, the floating and control of exchange rates raise higher demands on the domestic money and credit supply, adjustment of interest rates, and the central bank's use of those means to adjust macro-monetary policy. The central bank should adopt different measures to flexibly control floating rates in view of different situations; sometimes it should intervene in the market to directly affect exchange rates and prices for foreign

exchange, but sometimes it should pursue the root causes or take facilitating measures to provide support, raising or lowering interest rates and tightening or loosening the retrieval of RMB so as to achieve the goal of "stability amid floating."

Finally, more detail-oriented work will also be needed to improve the management of foreign debts and foreign-owned banks and to achieve other objectives.

## INDUSTRY

### Reportage on Aviation Industry, Reform Measures 94CE0315A Shenyang ZHONGHUA DISANCHANYE BAO in Chinese 6 Jan 94 p 1

[Article by Si Da (1835 6671): "Symptoms in China's Civil Aviation Industry, Countermeasures To Carry Out Reform"]

#### [Text] Frequent Accidents and Poor Service

During the past few years, crashes and hijacking of China's civil air carriers continuously occurred. This has made people doubt the standards of China's civil aviation industry and even lose their confidence. The foreign press even rated China's aviation industry as the least safe. In fact, the Civil Aviation Administration of China really has something debatable in terms of flight safety, keeping flights on schedule, and services.

—There were frequent aviation accidents in the past few years. The number of accidents even increased in 1992 and 1993. In nearly four months from 31 July to 24 November 1992, five major aviation accidents occurred in Nanjing, Guilin and other localities causing 309 deaths and five passenger planes and helicopters damaged. Another four accidents took place in 1993, causing deaths. The number of accidents and deaths in China's civil aviation industry is alarming. According to statistics, 25 accidents occurred during scheduled flights in the world causing 990 deaths in 1992, while the number of deaths during accidents of Chinese air carriers accounted for one-third of the total number of deaths caused by international carriers in the world in that year.

If a Chinese air carrier has an accident, the reason for such an accident is very seldom made public, stirring up a great deal of doubts among the people. Although we should not blame the flight crews of China's aviation industry for all the accidents, the people's worries about the quality of these crew members are not entirely groundless. An official of the department of airworthiness under the State Administration of Civil Aviation said: "The guerrilla sentiments of some civil aviation flight crews is incompatible with the scientific management procedure. They are used to do things by relying on their experience instead of acting with a scientific approach." In addition, the emergence of various regional airlines has also brought many new problems to

the management and safety of China's civil aviation industry. According to a survey, three of the crashes in 1992 involved air carriers of China's new airlines.

—Incidents of hijacking air carriers continuously occurred. As of 26 November, there were eight cases of air carrier hijacking in 1993. Among the eight cases, seven air carriers were hijacked and flown to Taiwan, while in one particular case, hijackers were later subdued on an Air Eastern passenger plane on 26 November when the plane was seized and on its way to Taiwan. Due to the large number of casualties on the air carriers when attempts to thwart hijacking failed in the past several years, we have always adopted the attitude of attaching great importance to safety of passengers and air carriers. Therefore, we do not desperately try to thwart hijacking. Meantime, we have repeatedly asked the Taiwan authorities to repatriate all hijackers back to the mainland so that we can subject them to severe punishment in order to attain the goal of executing one as a warning to a hundred.

—Not many of China's air carriers depart or arrive on time. According to statistics, 225 flights were delayed in 1991. The number of flights delayed rose to 1,319 in 1992 in which 86 percent of all flights by Chinese carriers departed and arrived on time, close to the international average. This percentage declined to 81.9 during the first half of 1993, a drop of 10.2 percent as compared with the same period in 1992. The civil aviation industry on the Mainland often gives no explanation for its schedule delay. Nor does it offer any compensation for the time loss, making the passengers unhappy. The schedule delay has also drawn criticism from the media at home and abroad. However, due to the fact that China's civil aviation industry has a tremendous backlog in construction and it is hard to come up with good measures to correct their outmoded practices. According to an analysis conducted by a official of the Civil Aviation Administration, China's air traffic control system, the system of flight detours and that of holding planes in the air have caused serious wastes and greatly affected the arrival and departure of scheduled flights on time. Right now, the civil aviation industry in foreign countries has generally used II-ILS [instrumental landing system], but none of the airports on the Mainland has met the II-ILS standard. Therefore, takeoffs and landings are often delayed whenever the weather is abnormal. Not long ago, heavy snow hit Beijing. Even after the snow stopped and the airport was open to traffic our reporter's flight schedule was still delayed for 10 hours. It was said that the pilot refused to take the risk of taking off under such weather conditions.

—Poor service. In addition to the quality of flight stewards and stewardesses, the poor service of China's civil aviation industry is closely connected with the shortage of flight crews. There are 13,000 flight crew members for China's civil aviation industry with an average of 30 members for each plane. According to statistics compiled by the FAA of the United States in

service and indifference of the service personnel, we have found, after a specific analysis, that most of the flight crews for China's civil aviation industry work many extra shifts and are extremely tired. There was such a saying in China's civil aviation industry on the Mainland. A Civil Aviation Bureau official was once on an inspection tour of an airline service. He asked a stewardess a question: "Why don't you smile while working in the passenger plane?" "I cannot smile. I work overtime everyday. I am so tired that I want to cry," replied the stewardess.

The aforementioned contradictions have greatly damaged China's civil aviation industry's reputation at home and abroad. Jiang Zhuping, director of the Civil Aviation Administration of China, believes that in addition to the poor infrastructural facilities, lack of professionally trained people and some of the rules and regulations pending further improvement, an outstanding problem is the lax administration. Right now, it is of great urgency to strengthen administration in China's civil aviation industry, he said.

To ensure the safety of the civil aviation system and improve service, the related units in China have repeatedly issued circulars and worked out measures to ensure civil aviation safety. In early 1993, the State Council approved and distributed the "Circular on Proposals Concerning Civil Aviation Safety." Not long ago, Jiang Zhuping, director of the Civil Aviation Administration of China, once again emphatically pointed out the need to develop civil aviation transportation in a safe and coordinated way. He said that to strengthen macro-control in China's civil aviation industry, the central task is to resolve the issue of structural imbalance caused by over-expansion. If there are too many air carriers, they would disperse productivity and lower the scale merit. Unreasonable and improper competition between different air carriers would adversely affect their stable development. Therefore, in purchasing more passenger planes, we must take into consideration the operational and maintenance capabilities and ensure that the ground facilities are able to cope with the additional planes. Meanwhile, we must make proper arrangements to adjust the flight schedules. Right now, the Civil Aviation Administration of China has temporarily stopped to accept applications for the establishment of any new airline. He also emphatically pointed out: "From now on, those who seek to buy or rent planes will have to go through a strict procedure according to the regulation, and we will strengthen the control over the purchase and rental of airplanes. We will also set up a network of training centers to strengthen the training of flight attendants to help them improve their services. We have

#### Low Starting Point, Large Rate of Growth

The speed in the development of China's civil aviation industry in recent years is eye-catching. An official of the Civil Aviation Administration of China, named Liu pointed out: There are 38 air carriers in China right now, including 25 regional ones and 13 air carriers under the direct administration of the Civil Aviation Administration of China. China has more than 600 civil aviation planes of all types, offering a total of 47,267 seats. As of the early 1993, the Civil Aviation Administration of China opened up 563 domestic and international air routes including 492 domestic air routes and serving 110 cities. There are 58 international air routes serving 53 cities. There are 13 regional air routes. Additional 35 domestic air routes will be added between the spring of 1993 and that of 1994.

China's civil aviation industry was placed under the control of the Chinese Air Force prior to 1980. Only after 1980, it was placed under the leadership of the State Council and under the administration of the Civil Aviation Administration of China. There are six regional civil aviation administrations. This is the first major change in the civil aviation administrative system in China. Another reform took place from April 1987 in the civil aviation administrative system on the Mainland. The State Council approved the plan for the reform of the civil aviation administrative system. Its basic train of thought is that as government organizations, the Civil Aviation Administration of China and its regional branches play a supervisory and administrative role. The flight operation, transportation, service and other production units form various air carriers. They and the airports become economic entities which manage their own affairs with an independent accounting system for each department or air carrier. Airports in various districts have also become independent. In order to cope with this situation, six regional civil aviation administrations have been set up to perform official functions. In 1993, China's civil aviation industry has become more comprehensive and established a large number of regional aviation companies.

The reform measures taken by China's civil aviation industry have made its business booming. In 1992, its air transportation volume stood at 4.26 billion ton/km, up 32 percent over 1991 and 13.2 times over 1978, after it registered a sharp increase of 30 percent in 1991 over that of 1990. Its rate of growth is 3.4 times greater than the world average during the same period. During the first half of 1993, China's civil aviation industry still saw rapid growth in transportation volume which stood at 2.38 billion ton/km. A total of 15.8 million passengers

This official pointed out that six of the 13 aviation companies under the direct administration of the Civil Aviation Administration of China are key enterprises. They are as follows:

**China International Aviation Corporation.** Its insignia is a red phoenix. It has a total of 62 planes with 97 international and domestic air routes including 39 international and regional air routes. Its assets, volume of sales and profits exceed other air carriers in China.

**China Eastern Airlines.** Its insignia is a flying swallow. It has a total of 66 planes with its base in Shanghai. It covers the whole country and connects China with Southeast Asia and Europe. It has a total of 130 air routes at present, going to more than 50 cities in the country. It also has regular flights to the United States, Japan, Singapore, Korea, Belgium, Spain and other countries as well as Hong Kong. Not long ago, a Eastern Airlines Group was formed with the air carrier as the center. It has more than 30 enterprises handling businesses in aviation, tourism, air kitchen, real estate, trading and advertisement.

**China Southern Airlines.** Its insignia is a red kapok flower. It has a total of 89 planes. It is one of the air carriers with more international air routes. The China Southern Airlines Group which operates with the air carrier as its center mainly handles air transportation. It also handles other businesses such as express parcel delivery by air, commercial advertisement, in-flight catering service, imports and exports, hotels and tourism.

**China Southwestern Airlines.** Its insignia is a roc. It has a total of 33 planes.

**China Northern Airlines.** Its insignia looks like a flying hawk and also like the rolling Changbai Mountains. It has a total of 92 planes.

**China Northwestern Airlines.** Its insignia is a swan flying through a sickle moon. It has a total of 42 planes.

Because of economic factors, most of the passengers on the mainland are businessmen or government employees on business trips. Therefore, China's air aviation industry can still barely meet the needs of the market right now in addition to maintaining scheduled flights. In 1992, the busiest flights were those between Guangzhou and Shanghai. There were 4,826 such flights, offering 1,033,363 seats. The rate of passenger occupancy is 88.6 percent. The next is Guangzhou-Beijing. The number of flights totalled 4,166 in 1992, offering 1,006,150 seats. Its rate of passenger occupancy was 88.2 percent and its regular payload is 61 percent full. There were 3,304 flights between Beijing and Shanghai, offering 1,130,800 seats. Its regular payload was only 43.4 percent full. There were only 830 flights between Guangzhou and Fuzhou, offering 111,016 seats. The rate of passenger occupancy reached 96.3 percent, ranking top in the country. The Guangzhou-Fuzhou flights are the busiest on the mainland. As compared with the

average world rate of passenger occupancy of 66.2 percent, it is quite obvious that there are more passengers than China's air aviation industry can possibly serve.

Although the development of China's air aviation industry is fast, it still lags far behind the world advanced nations, because China had a weak foundation in the past. For example, the Beijing International Airport has the largest number of takeoffs and landings on the mainland every year—68,000. However, this figure is only 10 percent of the world's busiest airport—the Osaka International Airport. The Baiyun International Airport has the largest capacity for handling passengers in China—9.01 million, but that of the Gatwick Airport in London is 18 million. Therefore, from a long-term point of view, China's air aviation industry is not large enough. Some related experts believe that a large number of Chinese passenger planes are outmoded such as AN-12, AN-24, Y-11, Y-5 and Y-7. Some of the planes should no longer be used, but they are still flying. In addition, the number of passenger will greatly increase, as China's economy is rapidly developing, the nation is opening wider and wider to the outside world, the people's living standards are rising, and there will be more and more foreign tourists. If we do not develop our air transportation as soon as possible, our civil aviation industry will become a "bottleneck" of China's development.

#### Shockwave From Regional Airlines

An upsurge to establish regional airlines was whipped up on the mainland since 1992. This has created a shock wave in China's aviation industry. People call it a regional airlines shock wave.

China's first regional airlines is the Shanghai Airlines established in 1985. Right now, there are 25 regional airlines. Except for a few regional airlines, large ones have five to six planes, while small ones have two to three planes. Some ones even have no planes at all. The majority of them render passenger services. On the one hand, the regional airlines help make more seats available to passengers, while on the other hand, they offer competition to the national airlines.

Right now, the business of the regional airlines is booming. In 1992, the total air transportation volume of regional airlines stood at 200 million tons, and nearly 3 million passengers flew China's skies, marking increases of 47.4 percent and 33.5 percent respectively over 1991.

However, the most serious threat to the national airlines posed by the regional airlines is their competition for professionally trained people. A pilot must finish four years of studies at the Institute of Civil Aviation and go through six years of flying while learning in order to become a competent pilot who can fly a solo. China's air aviation industry is unable to solve the problem of staff shortages and help its staff members improve their quality within a short period, because it takes so long to train professionals. Meanwhile, staff shortages lead to fierce competition between the regional airlines and the national airlines for professionally trained people. Right

now, about 150 pilots graduated from institutes of all types each year. With the number of intermediate and high-level engineering staff included, only 500 to 600 professionally trained people are available each year for the air aviation industry. This is far from being enough. It is only a drop of water in a bucket.

According to an estimate made by an official of the Department of Personnel and Manpower under the Civil Aviation Administration of China, a civil aviation pilot's annual income including basic pay, flying pay, flight crew meal subsidy, comprehensive and frugality bonus is about 14,000 yuan. However, regional airlines pay their pilots several times more than their national counterparts. This is a tremendous attraction to the pilots. This year, there are 100 military pilots who have been transferred to work for the civil aviation industry after some training. One regional airlines with only one plane, successfully recruited more than 20 of these pilots at one fell swoop with high pay. Only slightly over 10 such pilots have been hired by the large China International Aviation Corporation. Engineers and mechanics are also in great demand. The maintenance department of a national airline had more than 200 engineers and mechanics. Over 70 of them left for other airlines which offered higher pay. When the Hainan Airlines was established, more than half of the Boeing 737 maintenance staff working for the China International Aviation Corporation left to work for the Hainan Airlines. The leadership of the China International Aviation Corporation is worried about this situation, but there is nothing he can possibly do for the time being.

Meanwhile, due to the fact that most of the regional airlines only have a few planes, some of the pilots who have been hired by the regional airlines with higher pay have little chance to fly, causing waste. Besides, accidents are prone to occur in newly established airlines, because they have weak foundation, less capital and poor operational conditions. In addition, they are using outmoded or even obsolete planes. They also lack of supervision to ensure flight safety and airworthiness. There were three plane crashes in 1992 that involved new airlines.

A relative department in China believes that the excessively rapid increase of the number of airlines has further aggravated the structural imbalance in the civil aviation industry and brought many problems to aviation safety. As early as the beginning of 1993, the State Council, in a document it issued, pointed out the need to examine and approve any application for the establishment of any airline in strict accordance with the regulations, procedure and standards. Other departments must not handle such application without the proper authorization. Special consideration must not be given to any locality or unit that has not met the requirements for the establishment of any airlines. The State Council document also stipulated that no airplane or helicopter is allowed to take off by any person without a license issued by the Civil Aviation Administration of China or without a certificate of airworthiness for the plane. In order to

rationally solve the contradiction between the regional airlines and the national airlines, fully utilize the limited manpower and ensure maximum flight safety, the Civil Aviation Administration of China had temporarily stopped to accept any new application for the establishment of any new air carrier from July 1993.

An official of the Civil Aviation Administration of China said to our reporter that right now, the administration has worked out some measures to restrict airline staff in switching jobs. The regional airlines are not allowed to contact pilots of other airlines privately for job switching. If there is a need, negotiations should be carried out between airlines to solve problems. The national airlines may lease or transfer personnel to help regional airlines develop themselves. Flight crews or mechanics who privately switch jobs without authorization may lose their licenses to fly or do aircraft maintenance work. Airline, airport and flight control personnel are not allowed to accept side jobs.

#### Major Adjustments in Airline Ticket Price

For many years, China has implemented a system of dual ticket price. That is, the officially announced price as well as the discount price. Foreigners and residents of Hong Kong and Macao buy their airline tickets at the official price, while mainland passengers buy their tickets at the discount price with the latter about 30 percent lower than the former. Both the national or the regional airlines sell their tickets at the unified price. They have no authority to change prices for their tickets.

An engineer who is in charge of ticketing in the Beijing Civil Aviation Building said, the official ticket price in 1992 is approximately 0.5 yuan per km, while the discount price is 0.31 to 0.34 yuan per km. For example, the officially announced ticket price between Beijing and Guangzhou is 0.5 yuan per km, while the discount ticket price is 0.34 yuan per km. The price structure for about 90 percent of the flights on the Mainland is like that. The ticket price for flights between Guangzhou and Guilin is slightly exceptional. The officially announced ticket price is 0.72 yuan per km, while the discount ticket price is 0.34 yuan per km. In addition, the price is comparatively higher for flights of shorter distances. For example, the ticket prices for flights between Guangzhou and Swatow are 0.92 and 0.97 yuan respectively, while prices for flights between Guangzhou and Chanjiang are 0.9 and 0.94 yuan respectively. Besides, foreign residents must use foreign exchange certificates to purchase tickets.

The dual ticket price system confuses foreign residents. They are not so happy. This system causes a great deal of inconvenience. The leadership of the Civil Aviation Administration also believes that this system is unable to keep pace with the developing market economy and the opening-up program. It makes China's air aviation industry less competitive. It is against international practice, and should be reformed. In June 1993, the Civil Aviation Administration issued a circular to temporarily

put the officially announced price into effect from 25 June for passenger tickets on 114 busy air routes from Guangzhou, Shenzhen and other localities. That meant the abolishment of the discount price. Domestic and foreign passengers must buy tickets in accordance with the existing officially announced price list. Taking the officially announced price list for these 114 air routes as the highest limit, various air carriers have the authority to give their passengers up to 20 percent rebate. The Southern Airlines operates on 56 of the aforementioned 114 air routes.

On reforming the ticket price system, an official of the Civil Aviation Administration believes that China's civil aviation industry has begun to follow the international practice. It has also given various air carriers even greater power to manage their own business. From now on, various air carriers may adjust their price list according to market demand whenever conditions permit without the approval of the Civil Aviation Administration. This encourages various air carriers to compete with one another and improve their services.

Right now, various air carriers on the mainland have adopted measures to attract passengers. The China Southern Airlines has stipulated that passengers in group of ten may purchase group tickets at a 10 percent discount. A 10 percent discount is also given to any passenger who buys a round trip ticket between Guangzhou and Tianjin and between Guangzhou and Shenyang.

#### **Structural Reform Is Key**

Nearly all the people interviewed talked about issues on reforming China's civil aviation industry. All of them believe that without reforming itself, this industry has no way out. Structurally China's civil aviation industry is gradually turning the enterprises under its administration into a modern corporate system. It is changing the situation whereas the functions of government are mixed up with those of the enterprises. This industry is becoming more and more market-oriented and competitive so that it can set up a modern enterprise system. Right now, there are two large civil aviation groups—the Southern Civil Aviation Group with the China Southern Airlines as the mainstay and the Eastern Civil Aviation Group with the China Eastern Airlines as the mainstay. In addition, the China International Aviation Corporation which has not yet formed any group because of personnel changes will do so in the future. By forming groups, China's aviation enterprises would have more power in managing their own businesses. To form enterprise groups is an important measure to improve the industrial structure of China's civil aviation industry.

As for the investment system, China's civil aviation industry will adopt the form of limited-liability companies to raise its funds in society. Regional air carriers are welcome to cooperate with and buy shares of main national air carriers. China's civil aviation industry will support the various localities to build airports, and it will share risks and profits with them. As for capital, we may

expand the scope of business of Sino-foreign joint ventures and strengthen international cooperation. Foreign airlines may become shareholders of China's air carriers, and airports may be built by Sino-foreign joint ventures. Foreign residents may be invited to work as managers or consultants in order to make full use of their managerial experience to improve management.

In fact, China has already attained some achievements in opening its civil aviation market and attracting foreign investments for its civil aviation industry. By the beginning of 1993, the amount of foreign investments used in China's civil aviation had exceeded US\$5 billion. Some of the funds have been used to rent 126 planes and set up 12 Sino-foreign joint and cooperative ventures. The first Sino-foreign joint venture for China's civil aviation industry is the Beijing Air Catering Limited which is a joint venture with Hong Kong. The China International Aviation Cooperation and the Lufthansa Germany Airlines set up a joint venture called the Beijing Aircraft Maintenance Engineering Ltd., forming a base area for doing maintenance service to European and U.S. planes according to international standards.

In order to meet the rapidly increasing social demands, China's civil aviation has imported a large number of planes and become one of largest buyers on the world aircraft market. Since 1992, China's civil aviation industry has taken over 80 planes, including 65 passenger planes. In March 1993, it had again ordered 20 Boeing 737 planes and one Boeing 757 plane.

In the early days, China's civil aviation industry had already used foreign loans to rent planes. It also used its own funds and special state loans to rent 238 large- and medium-sized planes from abroad. Only in 1992 alone, it had imported 25 planes with US\$1.25 billion financed by the Mitsubishi Trust Bank, the Hong Kong Ting Hip International Leasing Company, the Hong Kong Bark Tat Leasing Company and the U.S. Xinfu Company. In addition, China had begun to raise China Aviation Funds abroad since last year. The first batch of such funds in the amount of US\$66.6 million has been secured. Securities in the name of China Aviation Funds are already on the European stock market.

Right now, foreign investments in China's civil aviation industry are still limited to the building of airports, the purchase of maintenance equipment and the development of other infrastructural facilities. For example, the Wuhan Airport is built by a joint venture between the Hong Kong New World Group and the Wuhan City government. The Xiamen Butterfield and Swire Aircraft Engineering Company Ltd, is one with six shareholders. The Hong Kong Aircraft Engineering Company Ltd, has a 41 percent share, the Chinese side a 29 percent share and 10 percent each by the Hong Kong Cathay Airlines, the Japan Airlines and the Singapore Airlines Engineering Company Ltd.

Nevertheless, China's civil aviation industry remains weak in flight control, aircraft maintenance and flight crew training. There still exist all types of unfavorable factors in this industry. In early 1993, the leadership of the Civil Aviation Administration of China had considered the establishment of air carriers in the form of joint ventures. According to well-informed sources, the relevant departments in China are prepared to work out some regulations for the establishment of airlines in the form of joint ventures, but at the present moment no such regulations have been announced. Therefore, China's civil aviation still has a long way to go before it attains a spectacular development and makes tremendous progress.

**Status, Development of Service Industries**  
*94CE0336 Beijing GUOJI MAOYI [INTERTRADE]  
in Chinese No 144, 15 Dec 93*

[Article by Yu Weixiang (0060 4850 7449), Institute of Foreign Economics and Trade]

**[Excerpt] [passage omitted] Present Status of Service Industries in China**

Since the initiation of reforms and a greater opening to the outside, growth in the tertiary industry in China has been advancing at a rather rapid pace. Many occupations servicing production are undergoing rapid growth in the rising industry. Occupations in traditional industries such as transportation, telecommunications, finance and insurance which affect production enterprises to a great extent have continued to undergo healthy growth in recent years. The appreciated value of these industries makes up about 65 percent of the total appreciated value of China's tertiary industry, and their work force makes up more than 50 percent of the labor force in the tertiary industry as a whole, making it the dominant group in the tertiary industry. New occupations in information, consulting, advertising etc., are growing. Take advertising as an example. Before reform and a greater openness, only several score agencies nationwide had the right to advertise, but the number has grown to more than 10,000 now. In conjunction with expansions in the scope of economic activity, and new discoveries in scientific technology, occupations in the information and consulting fields have also begun to open up. Increasingly, they are exerting an important effect on improving the levels of management and decision making, raising product effectiveness, and improving the efficiency and creativity of scientific research.

However, because of problems in the economics management system, lack of support in its policies, and other historical factors, a proportionately low and backward status is created for the tertiary industry in the national economy, together with a lack of coordination for it with the first and second industries. Not only is development backward in those basic service industries such as transportation, telecommunications, and public utilities which directly serve production needs in cities and

towns, the setup of other production services is also unhealthy and incapable of meeting enterprise needs. Add to this the lack of coordination between operations in the information, consulting, finance, and insurance industries with social development, the lack of progress in activities that safeguard society, the lack of coordination between scientific and educational activities with economic construction, and other problems. For enterprises attempting to start a tertiary industry in such a way, these factors create conditions that penetrate deep into the industry's various sections. Moreover, the enterprise is expected to shoulder many heavy responsibilities such as worker housing, medical care, cultural activities, recreation, family planning, education and jobs for worker offspring, insurance, safety, welfare benefits etc. In summary, the enterprise has total responsibility for the workers' clothing, food, shelter, and other daily activities from birth till death. Since the initiation of reforms and openness, many enterprises have blindly established many welfare type services atop the original base to increase worker benefits and income.

Because of property rights and obstacles in the management system, the tertiary industry started by enterprises has chiefly been self service in a closed-loop operation, with no concern for benefits to society. As the result, the market for production services is shrunken, and socialized development of production services is curtailed. Socialization of China's production services, together with low commercialization, not only causes irrational allocation of resources and serious waste, but the way enterprises handle their own "tertiary industry," and their own "welfare" to form a "large and complete" or a "small and complete" entity causes them to shoulder some heavy baggage. On one hand, because enterprises are unable to obtain high quality production services, product improvement is affected. On the other hand, because of a structural cancer created by the enterprise taking on its own burden of a "miniature society," with too many people sharing the same pie, the enterprise's expenditures and management responsibilities are increased, making it difficult to concentrate on development and production, which in turn hinders increased productivity.

**Direction Taken by China's Production Services**

Production services make up an important component of the tertiary industry, and their growth and progress follow overall development of the tertiary industry. As the result, accelerating development of the tertiary industry is a necessary condition for enterprise survival, an objective requirement in modern management. The focus of accelerated development of the tertiary industry should be on those "cross-serving" occupations that make up the whole economic service base found during various stages of enterprise activity. Examples are those in transportation, telecommunications, public utilities in cities and towns, etc. The pace of growth in all these occupational areas is the sole factor affecting development of the whole tertiary industry. It is also the premise upon which stepped-up development of the national

economy at a steady pace is based. Furthermore, it is also necessary to expend great effort to develop those specialties such as finance, insurance, consulting, information, and various technology services that serve specific phases in the enterprise' production cycle. Accelerated development of these production services is the key to rational use of enterprise capital for efficient productivity.

To step up development of the tertiary industry, we must step up reforms in the present system, as well as the pace of change in enterprise operation, to truly accomplish the separation of the enterprise from politics and events, so that the enterprise can truly be an independent operation that is self sufficient and self directing.

In the first place, to adapt to requirements for developing a market economy, fields such as scientific research, information, consultation etc., must be taken out from under their respective departments to become new social services. They will then provide production agencies with timely information on market changes, and forecast changing trends in market needs to help with scientific decisions and policies that must be made to develop new technology and explore new products. Next, the dependent "self-service structure" must be separated gradually from the enterprise to which it is attached, and be placed in the larger tertiary industry market under socialized management. By doing so, the burden on the enterprise is lessened, structure is simplified, and personnel and expenses are reduced, thereby increasing productivity. Third, a protective social welfare net must be established to reform the presently practiced health care, labor protection, and retirement systems so that enterprises can shed the responsibility of these benefits and services that should rightly be provided by society. Fourth, the pace of economic legislation must be stepped up, various rules and regulations strengthened, and a societal system of surveillance, auditing, and consulting services perfected, to maintain economic order and enforce strict administration and execution of the law to assure the healthy conduct of all economic activity.

Accelerating the pace of tertiary industry development provides the important assurance that the goal of continued economic growth for China is realized. It is also the precondition for establishing a socialist market economy and the objective requirement for modern management in the information age. At any rate, it is commonly recognized that accelerating this industry's development is an enormous task that affects the overall

picture. In June 1992, the Central Committee of the CPC (Communist Party of China) and the State Council issued a resolution on accelerating the pace of development in the tertiary industry. In his report at the 14th Plenum of the CPC, General Secretary Jiang Zemin had emphasized that an important indicator in a modernized economy is how a tertiary industry is flourishing, and for this reason, we must exert great effort to stimulate its rise. The essence of this conclusion also illuminates the objective trend in man's development of a social economy and changes in social structure, and clarifies the role and effect of the tertiary industry in the modern economy. Because the Central Committee and the government both strongly emphasize development of the tertiary industry, many specific policies and measures have appeared, for development of the tertiary industry in China to be regarded in a new light. As the focus for accelerating the pace for tertiary industry development, the "Resolution of the Central Committee of the CPC and the State Council on Accelerating the Pace of Tertiary Industry Development" mentions occupations in four areas. They are:

1. Occupations and services requiring low capitalization, of high efficiency, quick returns, and high volume that are closely related to economic development and the people's livelihood.
2. New occupations closely related to scientific and technological progress.
3. Occupations and services that improve peasant character and raise their standard of living, as the tertiary industry at the rural level is presently comprised chiefly of occupations providing services before, during and after agricultural production.
4. Comprehensive and innovative basic services and occupations that contribute to development of the national economy.

Innovative services are formed from many different kinds of specialized services. As the result, some people refer to them as "mixed-type services," whose development accompanies the rapid growth of many types of services just described. To adapt to the needs of economic development, the direction and goal taken by China's production services must 1) adapt to the multiple facets of demand; 2) be of high quality; 3) be consistent; and 4) lower the cost of service. To realize these goals, the service industry must implement six changes: that is, to be externalized, organized, mechanized, standardized, informed, and systemized.

**Industrial Output Value by Area in February**  
**HK2203115394 Beijing CEI Database in English**  
**22 Mar 94**

[Text] Beijing (CEIS)—Following is a list showing the industrial output value by area in China in February 1994 released by the State Statistical Bureau:

Area	2/94	2/93	(Unit: 100 Millions yuan)
			Change Over 2/93 (pc)
National total	2513.00	2408.68	4.4
Beijing	77.68	71.42	8.8
Tianjin	58.13	57.92	0.4
Hebei	88.34	86.78	1.8
Shanxi	39.20	42.31	-7.4
Inner Mongolia	20.51	21.21	-3.3
Liaoning	131.37	133.30	-1.4
Jilin	44.19	48.49	-8.9
Heilongjiang	63.85	68.43	-6.7
Shanghai	183.97	185.84	-1.0
Jiangsu	394.21	357.05	10.4
Zhejiang	169.75	159.65	6.3
Anhui	70.32	63.79	10.2
Fujian	60.26	54.07	11.4
Jiangxi	46.81	41.65	12.4
Shandong	235.07	199.21	28.0
Henan	87.71	90.63	-3.2
Hubei	100.09	93.07	7.5
Hunan	59.78	60.38	-1.0
Guangdong	246.01	248.17	-0.9
Guangxi	48.84	47.25	3.4
Hainan	6.01	6.77	-11.2
Sichuan	120.01	118.59	1.2
Guizhou	17.04	20.00	-14.8
Yunnan	35.78	37.86	-5.5
Tibet			
Shaanxi	33.60	37.00	-9.2
Gansu	24.97	23.02	-0.2
Qinghai	4.41	4.25	3.8
Ningxia	6.12	6.61	-7.4
Xinjiang	19.51	21.96	-11.2

Note: Industrial output value in 1994 is measured in 1990s constant years.

## ECONOMIC

**Feb Light Industrial Output Value Figures By Area Issued**

**HK2303112194 Beijing CEI Database in English**  
**23 Mar 94**

[Text] Beijing (CEIS)—Following is a list of the light industrial output value by area in China in February 1994 released by the State Statistical Bureau:

Area	2/94	2/93	(Unit: 100 Millions Yuan)
			Change Over 2/93 (Percent)
Total	1182.86	1140.46	3.7
Beijing	29.36	26.35	11.4
Tianjin	24.01	24.10	-0.4
Hebei	34.76	34.07	2.0
Shanxi	8.03	9.31	-13.7
Inner Mongolia	6.74	7.27	-7.3
Liaoning	32.90	33.19	-0.9
Jilin	13.69	16.30	-16.0
Heilongjiang	18.69	20.84	-10.3
Shanghai	81.31	82.86	-1.9
Jiangsu	205.29	177.88	15.4
Zhejiang	110.08	102.73	7.2
Anhui	36.11	33.49	7.8
Fujian	39.33	34.62	13.6
Jiangxi	20.47	18.37	11.4
Shandong	123.24	98.45	25.2
Henan	40.22	42.20	-4.7
Hubei	41.45	38.67	7.2
Hunan	22.95	24.96	-8.1
Guangdong	165.36	169.25	-2.3
Guangxi	28.13	28.46	-1.2
Hainan	4.32	5.32	-18.8
Sichuan	44.89	47.57	-5.6
Guizhou	5.13	8.00	-35.9
Yunnan	17.86	21.12	-15.4
Tibet			
Shaanxi	12.26	14.35	-14.6
Gansu	5.06	6.60	-23.3
Qinghai	1.10	1.00	10.0
Ningxia	0.92	1.40	-34.3
Xinjiang	9.133	11.73	-22.2

**CONSTRUCTION****Report on Real Estate From Construction Conference**

**94CE0355A Beijing ZHONGGUO SHANGBAO**  
in Chinese 1 Feb 94 p 1

[Report by reporter Zhang Wanlong: "The Real Estate Market Nationwide Gradually Came To Function Normally—Development Slowed Down, Investment Structure Improved, and the Rules Were Being Perfected"]

[Text] At the recently closed national conference on construction work, this reporter learned that the work of exercising macroregulation and control over the real estate market nationwide had produced prominent results in the second half of 1993.

Development slowed down. The entire year's rate of growth over the same period of the previous year was 14.9 percent lower than the first six months' rate of growth over the same period of the previous year. In terms of floor space, the amount of commercial buildings being built declined by 26.7 percent, and newly started projects of buildings declined by 67.2 percent, the amount of buildings completed declined by 15.9 percent, the amount of buildings sold declined by 22.4 percent, and the sales volume declined by 3.2 percent.

Investment structure improved. The localities reexamined the projects of luxury buildings and projects of high-consumption construction which had already been approved, strictly controlling the granting of approval to construction projects with unclear market prospects and shifting the focus of investment to the construction of urban housing. The share of housing in the amount of commercial buildings being constructed, newly started, or completed increased markedly over 1992.

Prices stabilized. In the second half of the year, forward real estate prices in the hot spot regions declined by 20-30 percent over the beginning of the year, and spot real estate prices declined by 10-20 percent. Under the situation of strong inflationary pressures and a strong demand for real estate, real estate prices remained basically stable.

Market rules were being gradually perfected. The relevant agencies of the central and local governments all quickened the pace of legislation. In addition to the national Provisions for Land Appreciation Tax and Provisions for Fund and Quality Management of Real Estate Development Enterprises, provinces such as Zhejiang and Guangdong promulgated regulatory rules on real estate development; over a period of time some regions also issued such local laws and regulations as on the relinquishing and transferring of land use rights, real estate trading, real estate evaluation, and standard land prices.

The situation with respect to the regulating of development companies became markedly more orderly. The

companies with no real estate development capabilities were withering away by themselves. In Guangxi 380 real estate companies closed down by themselves; Guangdong terminated 170 real estate companies with no development capabilities. At the same time many law-violating companies were investigated and actions were taken against them; and, in accordance with state regulations, land management agencies and financial institutions were disconnected from the companies they had created.

**ECONOMIC ZONES****Shenzhen Economic Zone Readjusts Market Prices**

**94CE0335A Beijing JIAGE LILUN YU SHIJIAN**  
[PRICE: THEORY AND PRACTICE] in Chinese  
No 12, Dec 1993 pp 51-53

[Article by Wen Wuhan (2429 2976 3352): "Shenzhen Economic Zone's Way of Regulating and Controlling Market Prices"]

[Text] The Shenzhen Special Economic Zone [SEZ] was like a trailblazing vanguard in China's reform and opening to the outside world, in developing the socialist market economy, and in stepping up modernizations. It was not only first in achieving successes in a market-oriented price reform, but also gained abundant experiences in its exploration of price management through regulation and control under the conditions of market economy.

**1. Direct Regulation and Control of Government-Fixed Prices**

The method employed by the Shenzhen SEZ was: Prices and charges in areas of a monopolistic, scarcity, protective, and mandatory character shall still be fixed, regulated, and controlled by the government. These include charges for electric power, communications and transportation, water supply, urban public utilities, primary means of agricultural production, real estate, education, health services, and administrative enterprises. This is a pattern in which the government by itself applies the law of value in regulating and controlling prices. In the actual practice of regulating and controlling these prices, the Shenzhen SEZ strictly observes the limits of authority in matters of price administration as between the central, provincial, and city governments. It will rationally determine and adjust the said prices and charges according to the product costs and expenses in the various lines involved, according to the supply and demand situation, also considering the average profit margin of social funds, and also considering the need for optimizing the production structure. The aim is to allow these lines and products to earn, under the conditions of normal production and rational operations and services, more or less the same profit as the average profit margin of social funds, and furthermore to promote the sustained and

well-coordinated development of all the various industries and trades of the national economy.

## 2. Price Management by Regulation and Control of Prices Determined by Market Forces

In its price reform, one step ahead of others, the Shenzhen SEZ has already decontrolled all prices and charges for products and labor services of a competitive nature and allowed them to be regulated by the market, with the result that prices for 97 percent of all retailed commodities had become market-regulated. In this vast array of market-regulated prices, the SEZ government chose food prices, which were of primary importance for the people's livelihood and which accounted for over 60 percent of all retail sales, as its breakthrough point in carrying out the said regulation and control measures. It effected regulation and control by economic measures, through new rules and regulations, and by necessary administration means, and thereby, ahead of others, accumulated experiences in the regulation and control of market-regulated prices under the conditions of the socialist market economy.

A. Establishing markets for the trading of agricultural products, promoting normal circulation of commodities. To establish wholesale and retail markets for the agricultural products of the SEZ, the SEZ government instituted unified planning, and through the methods of investments by public finance, raising funds among the public, loans, and the shareholding system, it set up successively large and medium-sized wholesale markets for agricultural products of altogether over 100,000 square meters in Yuanling, Futian, Buji, and other places. It restored or newly built over 100 retail markets for agricultural products over an area of over 300,000 square meters, accommodating over 60,000 vendors' stalls. The purpose of establishing these markets for agricultural products was not only to enliven circulation, promote production, and greater convenience for the people, but also to provide the preconditions for fair competition and trading at reasonable terms. This is an important link in the establishment of a new market order for the whole series of processes, from production, to circulation, and to consumption of agricultural products, in accomplishing normalization of market prices, and in effective price management through regulation and control.

B. Using economic measures in the regulation and control of market prices. These are the essential measures by which government effects macroeconomic regulation and control of market prices under the conditions of the socialist market economy. They are also objectively demanded by the operational mechanism of an economy that works on the principle of "let the state regulate and control the market, and let the market guide the enterprises." It is for this reason that the industrial and commercial departments of the SEZ exert efforts in the following ways:

First, closely monitoring of market movements, being accurately in control of supply and demand changes in the market, signalling to the government danger signs in the market, and suggesting countermeasures that will effectively control prices. For instance, in 1989 the entire city's total demand in 1990 for major foodstuffs was forecast as: grain 180,000 tons, edible oil 20,000 tons, sugar 12,000 tons, aquatic products 30,000 tons, poultry 18 million heads, egg products 12,000 tons, and vegetables 280,000 tons. The forecasts were also for the particular seasons, months, and days of the demand, and in this way provided clear and definite targets for the scientific regulation and control of supply and demand of agricultural products in the market, for the development of production, for the organization of out-of-town sources of supplies, and for ensuring a well-balanced availability in the market.

Second, energetically developing production, increasing effective supplies. Guided by the policy of "developing production, increasing supplies, expanding exports," the SEZ government formulated a set of "food basket projects" which combine concern for the economic development of the SEZ as also for the livelihood requirements of the people. It has so far established 646 specialized and intensively operating fresh foodstuff production entities. By 1990 the entire city had become self-sufficient in aquatic products to 64 percent, in vegetables to 50 percent, in egg products to 60 percent, in pork to 41 percent, and in poultry to 31 percent.

Third, opening all gates to the SEZ, enlivening the circulation system, and on a broad scale opening up supply sources in outlying areas. Production and construction in the SEZ is rapidly developing, employees, workers, and floating population are all rapidly increasing, and the excess of demand over supplies in the market is becoming an ever more significant factor. Under these circumstance, the SEZ government is exerting great efforts in the development of production and in increasing the local sources of commodities, while at the same time ridding itself of the ossified traditional distribution system and smashing the exclusivity of business operations by state-owned commercial enterprises and supply and marketing cooperatives. The SEZ is establishing a diversified circulation system with many divers channels which flexibly react to changes, with a minimum of intermediary links, and with an integration of production, supply, and marketing. Under the new system of having the commercial and trading enterprises "operate in a diversified way but adopting one line as main line of business," and of "integrating domestic and external trade, while making production, supply, and marketing one well-coordinated process," the gates of the SEZ will be opened wide, "commodities are welcome from any direction, and people are welcome whether in state-run, collective-run, or individually operated enterprises," all may participate in the market, to engage in fair competition and free trading. On a broad scale, main agricultural production districts in outlying areas are being interested in setting up commercial enterprises in

the SEZ, so that commodities from all directions may flow into the SEZ's markets and continuously increase effective supplies to the SEZ.

Fourth, exploiting to the fullest the advantageous location of the Shenzhen SEZ for export trade, developing import and export trade, aiming at a balance of supplies and demand in the market. Shenzhen is separate from the hub of international trade, Hong Kong, by only a bridge, and the SEZ has a unique advantage for earning foreign exchange by exporting fresh foodstuff to Hong Kong. At the same time, it is also in a position to obtain through Hong Kong most rapidly supplies of important commodities from the international market and information on price fluctuations. The SEZ can be flexible and selective in its import and export trade, so as to achieve a balance of supplies and demand in its market. For instance, early in 1989, the grain market became disturbed, and No 3 rice, even at as high as 160 yuan per 50 kilo, was hard to come by. At that time the SEZ immediately imported rice from Thailand and stabilized the grain market.

3. Using rules and regulations as means of effectively regulating and controlling market prices. From the viewpoint of administrative control, market economy is an economy operating within a legal system. The Shenzhen SEZ has therefore formulated a complete set of rules and regulations operationally effective in its system of wholesale and retail markets.

First, the SEZ's rules and regulations for the administrative control of wholesale markets. 1) Operators must register and display their license when operating wholesale markets. 2) Wholesale business in agricultural products must be transacted inside the market. 3) Market control organs must daily publish the commodity supply situation, the prices of the various commodities in transactions the day before, so as to provide price information for buyers and sellers. 4) Set prices must be clearly marked out in the market. None other than legally prescribed standard scales and weights must be used. Fraudulently cornering the market, hoarding and speculating, adulterating and falsifying, and the deliberate forcing up of prices are strictly prohibited. Prices must accord with the quality offered, competition must be fair, and trading must be free. 5) Operators must pay taxes and administrative charges according to regulations. Invoices are prescribed, and invoices must accompany all commodities transacted, to provide, for later linkage with the retail sales, a basis for the determination of retail prices, according to the system of having a rate for the differential between wholesale and retail prices.

Second, the SEZ's method of administrative control of retail markets and its system of law-consistent trading operations. The SEZ's policy is to treat state-run, collective-run, and individually operated businesses equal and without discrimination. 1) The trading system is to be one of openness. The SEZ prescribes that every retail trader shall install himself/herself and conduct trade within his own vendor's stall. He/she shall openly display

the quantity and quality of goods and clearly mark their prices. Transactions shall be fair and in observance of the law, and all trading shall be courteous and open to supervision. 2) The trade control system shall be well documented and conducted with proper bookkeeping. When retail traders bring good bought at the wholesale market to the retail market, they must have documentation of legal transactions, and they shall fix the retail sales prices according to the prescribed rate for the differential between wholesale and retail prices. They must also strictly keep accounts of all transactions according to proper accounting procedure. The accounting system shall enable checks as to whether the traders have observed all legal provisions. 3) Instituting a system of "cards of reputable conduct." To ensure fairness of transactions, and to guard against adulterations and falsifications, short weighing and arbitrary forcing up of prices, every retail sales stall has to prepare at the time of any transaction a "card of reputable conduct," showing the type of commodity sold, its quantity, quality, unit price, and total amount involved, to present to the buyer and the city official in charge for examination and verification, as proof that vendor has conformed to law. (4) Instituting an administrative control system by means of recording negative marks for violating rules or regulations. Rules and regulations, as well as penalties for violations, shall be publicly displayed inside the market. Violators shall be penalized by recording negative marks. The SEZ is carrying out its comparative appraisals in an enlightened way: those who had no negative marks during one month are vendors of excellence, those who had only one to two negative marks are good vendors, those with three to five negative marks are vendors due to receive a warning, those with five to 10 negative marks shall be temporarily closed down and undergo rectification, those who have accumulated 25 or more negative marks during the year shall have their license revoked and be expelled from the market. 5) The SEZ instituted a "target achievement" administrative control system. This is a mechanism of self-control of administrative control personnel. The system of job responsibility applies to personnel of every rank enforcing basic administrative control of industrial and commercial commodity prices in the SEZ. A comparative appraisal of "target achievements" shall furthermore be conducted every month, quarter, and year, and administrative market control and service achievements shall be linked to rewards, penalties, and promotions.

4. Using administrative measures to control the rate for the differential, according to the principle of giving due consideration to production prices. This is a kind of new type of administrative control method which effectively regulates and controls market prices by applying the principle of adding the average rate of profit to the cost price. By a rational determination of the rate for the differential allowed between the prices at which the goods are brought in and the prices they are sold for, the Shenzhen SEZ is regulating and controlling for a certain

time and for certain special commodities the rate for the differential between wholesale and retail prices.

This kind of control of the rate for the price differential reflects the government's conscious application of the production price (plus average profit) principle, arrived at by making full use of the function of market regulation. It enables, on the one hand, effecting changes according to the changes in costs and charges, and, on the other hand, enables formation of rational purchase, wholesale, and retail prices under the restraints of market supply and demand. It establishes a harmonious coordination of profit distribution as between the various links of production, wholesale, and retail. It has also, as a consequence, resolved the irrational situation of "having people at both ends crying, while the middleman laughs" and of having exorbitant prices being demanded, a situation that had arisen after the traditional prices had become irrational, had been decontrolled, and allowed to freely adjust. It has also enabled control of prices at an appropriate level.

In short, after several years of hard work in the economic field, and exploratory efforts in the field of socialist market economy, the Shenzhen SEZ has achieved excellent results in its government's regulation and control of prices.

## AGRICULTURE

**Five Major Social Contradictions, Rural Unrest**  
94CM0163A Hong Kong KAIFANG [OPEN MAGAZINE] in Chinese No 85, 1 Jan 94 pp 38-39

[Article by Xia Wensi (1115 2429 1835): "Peasant Discontent Sparks Riots"]

[Excerpts] China today has five principal contradictions, so says the Sociology Institute of the Chinese Academy of Social Sciences [CASS] in its recent analysis of the social situation in China and forecasting of the year to come.

First, central-local relations are being tested across the board. Second, the war against corruption is facing a serious test. Third, the gaps in regional development are widening, as are income disparities between the different strata, which has a substantial impact on the public psychology. Fourth, there is the possibility of serious sudden incidents breaking out in some localities. Fifth, law and order is in serious trouble.

These five major contradictions, which cause the CPC authorities much anxiety, are the very factors that may touch off unrest in China today. They also epitomize what is wrong with Chinese society at the moment.

As far as central-local relations are concerned, the most likely trouble spot, if the current situation is any guide, is Muslim areas in the northwest. Shaken by riots by the Hui nationality in Qinghai in the fall of 1993, Zhongnanhai is now very nervous about the situation in the northeast. Its instruction to the local governments is that they absolutely must do a good job in nationalities work

and prevent anybody from stirring up trouble in the name of religion. The government is scrutinizing what is being said in the press in the Hui areas most closely, fearful that the slightest linguistic indiscretion would again anger the Muslims and ignite a disaster similar to the Qinghai riots.

Dominated by the Han nationality, many people believe, China does not face the prospect of dissolution in the manner of the Soviet Union and Yugoslavia. Yet Chinese history is replete with examples of instant disintegration after the demise of a centralized imperial authority. Besides, the CPC regime today is very similar to the centralized monarchies in Chinese history. Will the Chinese mainland remain unified as central power wanes and CPC authoritarianism further declines after Deng Xiaoping's death? Hard to say right now.

The takeoff of the Chinese economy has brought prosperity, but prosperity is not exactly the same thing as stability. Prosperity itself has spawned new social problems such as corruption and the unequal distribution of wealth, all breeding grounds of social unrest. The more prosperous the economy, the bigger the problems. The Shenzhen Special Economic Zone is the nation's corruption and degeneration capital. The officialdom in Shenzhen, the ordinary people say, is a hotbed of corruption; there is not a single cadre in the city who is not on the take. Measured by the charges against the several economic criminals whom the CPC has openly executed by shooting, two-thirds of the members of the CPC municipal committee should also be killed by the firing squad. Then there are the relatives of the cadres and officials who speculate in land and stock, making a killing thanks to their power and influence. The common people see everything and feel bitter at heart. There is a groundswell of resentment.

In the booming coastal areas, individual-household upstarts and bureaucratic capitalists wallow in dissipation and luxury, their way of life consisting of the so-called "one big and three smalls," that is, "big brother" and "minor wife, small car, and small villa." Side by side with the nouveau riches, however, are tens of thousands of low-paid workers from the provinces in the interior, toiling in factories and experiencing the brutality of what Marx called capitalist primitive accumulation. After seeing how they lived, a Beijing reporter said it was as tragic as the lot of the "indentured laborers" in Shanghai in the 1930's as portrayed by veteran writer Xia Yan [1115 5888].

After witnessing the shocking polarization between the rich and the poor in the coastal areas, he could not help but sigh with feeling, saying he would not be surprised if there occurred another round of unrest similar to the Shenzhen stock market riots.

Owing to the erosion of social values and the gradual decline of the authoritarianism of the CPC dictatorship, the mainland society is showing signs of getting out of control. Law and order on the mainland is in worse shape today than in 1949 when the KMT was in power.

Serious crimes such as car theft, highway and river robbery, armed robbery, drug-trafficking, prostitution, abduction, and kidnapping have been on the rise relentlessly.

There were over 70 bank robberies in broad daylight on the mainland in the first 11 months of 1993 and 11 bank employees were killed. Most of the bank robbers carried firearms. A Taiwan businessman who traveled back and forth between two cities regularly reported witnessing three major hold-ups by gangs within 5 days. He said he had travelled on business to countries like the Philippines and India, nations notorious for their lawlessness, but had never before seen anything this frightening. He said, "In terms of law and order, the mainland is about even with the black neighborhoods of New York City."

According to the internal documents of the Ministry of Public Security, law and order has broken down in many border areas and villages and at numerous locations along the highways and railways, where serious crimes like smuggling, prostitution, drug-trafficking, and gang robberies are commonplace.

Mainland sociologists predict that social law and order will continue to deteriorate as the urban unemployment rate keeps climbing because of economic reform and as haphazard rural migration worsens by the day.

Inadvertently or otherwise, the Sociology Institute of CASS has omitted the most serious problem in China today, namely agriculture.

The most dangerous thing today, both the mainlanders and people overseas say, is peasants making trouble. [passage omitted]

In early 1993 peasants in Renshou County, Sichuan Province, staged anti-tax riots lasting five months. This time around the CPC regime did not despatch tanks and AK-47 rifles to put down the uprising, which was how it dealt with the students on Tiananmen Square. Not only did it stress appeasement, but it even released Zhang Dean [1728 1795 1344] and Xiang Wenqing [0686 2429 5237], two peasant leaders who headed the tax protest, but was also forced to take practical measures to ease the heavy burden on peasants in the county.

It has been said that this was the first time in 40 years that the CPC buckled under popular resistance.

It had no other choice, people in the know say. Already the flames of the peasant movement in Renshou County and neighboring areas were spreading. During the disturbances, 17 peasants' associations sprang up spontaneously in Renshou County overnight. Trouble was also brewing in the surrounding counties. Any forcible suppression would have ignited a mass uprising throughout the province. [passage omitted]

The peasant riots in Renshou County should not have taken the CPC by surprise. By the time Deng Xiaoping toured southern China in 1992, fueling a second bout of

"economic reform fever," the seriousness of China's agricultural crisis was quite pronounced.

In the beginning, reform—fixing farm output quotas for each household—generated a measure of short-term prosperity in Chinese agriculture. But this was followed by stagnation and decline. Reformers were wholly preoccupied with industry and investment in agriculture began a steady decline. Investments in capital construction in agriculture in 1992 accounted for a mere 3 percent of all fixed assets investments in the whole country, a historic low. Because of inflation, agricultural production costs also rose continuously, increasing the burden on peasants and causing bankruptcies in agriculture, a bad omen. Reports say that villagers in Sichuan Province, long known as the land of milk and honey, were so overwhelmed by the burden that they went on strike. Peasants in Jianyang County, Sichuan Province, pulled up rice seedlings that they had planted painstakingly, declaring that never again would they grow crops. Or turn over grain to the state.

But the peasants' woes are not limited to these. Caught in a cash squeeze, the Chinese Government in recent years has been shifting its fiscal difficulty to the most impoverished members of Chinese society: the peasantry. Consequently, peasants turn over grain to the state only to be given IOU's. When the children of peasants who have found jobs elsewhere remit money home, the post office refuses to cash them, issuing "green slips" instead. Furthermore, peasants are slapped with all sorts of the most outrageous and exorbitant taxes and levies. Mainland newspapers frequently carry reports of peasants being driven to commit suicide by drowning or hanging, an entire family ruined in the process.

Chinese peasants have gotten to the point where they could no longer continue living.

In many localities peasants gang up with one another and turn to banditry, robbing trains and cars and stealing public installations mostly just to survive; one can no longer feed and clothe one's family doing legal work alone. There is a village in Sichuan inhabited by poor peasants. Driven by poverty, the peasants dug some big holes on the highway, making it impassable by car. Only when the drivers paid a toll did they fill up the holes and let the cars go through.

Leaders of the CPC, including Jiang Zemin [3068 3419 3046], inspected the countryside in 1992. What they saw made them tremble with fear and gave them many a sleepless night. Reportedly they asked the peasants, "What do you need?" Answer: "Chen Sheng [7115 0524] and Wu Guang [0702 1639]." Asked what they would like to do, the peasants said, "Sweep Li Zicheng's [2621 5261 2052] grave."

Peasant riots in Renshou County may very well be the harbinger of a more extensive peasant uprising in the future. Experts on the Chinese peasantry note that sporadic peasant disturbances are now springing up all over China. [passage omitted]

**Eight 'Components' Of Propertied Class**  
*94CM0163B Shanghai SHEHUI [SOCIETY]*  
*in Chinese No 108, Jan 94 pp 22-24*

[Article by Gu Wen (1324 5113): "Propertied Class On the Rise"]

[Excerpts] [Passage omitted]

A booming private economy, a large infusion of foreign capital, and the marriage between them and the market system have inevitably led to widening income gaps, hence the emergence of a host of property owners of substantial means. We call this segment of the Chinese economy the "propertied class" and propose to identify its components.

The first component consists of home-grown individual households. Starting with next to nothing, a large number of self-employed individuals in China have prospered in recent years. As the unemployed or people waiting for employment, they were the objects of pity of the salaried society in the early 1980's, only to become the first batch of beneficiaries of reform thanks to a historic opportunity. Formerly "speculators" and "profiteers" who transported goods long distances for sale, they gradually accumulated enough capital to open a restaurant or a clothing store, or to go into business retailing textiles made of chemical fibers. Women who once sold eggs now sit right next to the counter to keep an eye on video game machines nearby. After making a fortune doing business in a small way, a number of individual households became more ambitious as their wallets expanded and set their sights on television sets, recorders, electric fans, refrigerators, even computers. In the city where I live, all five electrical appliance stores that opened for business in 1992 are run by individual households. More recently, encouraged by the speeches made by Deng Xiaoping as he toured the south, individual households began flexing their economic muscle almost overnight. Individual households from Wenzhou head north to the Sino-Russian border and south to where China abuts Myanmar and Vietnam to participate in border trade. Their counterparts from Jiangsu and Zhejiang march into Sichuan and line the roads there with gas stations, sinking tens of thousands, even hundreds of thousands, of yuan into the business. The area is so heavily dotted with gas stations that the eye cannot take them all in. According to the latest survey by the State Statistics Bureau, about 20 percent of urban and rural households are high-income households earning over 10,000 yuan a year, including 5.30 million households who make more than 50,000 yuan annually. Perhaps man is a born economic animal. These people, previously referred to by political economists as the "lumpen-proletariat" (in Marx's words), are reinvesting the enormous wealth they have accumulated instead of spending it to build houses to live in. That way they steered clear of the possibility of becoming mere big-time consumers and instead turned themselves into owners of capital goods. No doubt the moment an individual

householder who used to do everything himself opens a store, hires help, and is addressed as "boss" by his employees, he crosses the threshold into the "propertied class."

The second component consists of township and town enterprise shareholders. The township enterprise is a form of enterprise unique to China. Most of these enterprises are built with funds raised by peasants and manned by peasants hired to do the job. Typically a township enterprise has only a few major shareholders, three to five perhaps. The ownership of a major stake in the enterprise distinguishes the major shareholders from the ordinary peasants whose investment can be anywhere from 100 yuan to 1,000 yuan and even more from the larger number of peasants who are paid for their labor. They hold managerial and distribution power and own the capital goods. As such they belong in the "propertied class."

The third component consists of capital owners from overseas. After reform went under way and the open policy was introduced, China in reality is no longer an unadulterated socialist economy, with all forms of capital from overseas penetrating into the mainland economy. Whether they are involved in Sino-foreign joint ventures, Sino-foreign contractual joint ventures, or wholly foreign-funded enterprises, these overseas investors must be considered card-carrying members of the capitalist class, something that absolutely nobody would disagree with. This is so even though some of them are red capitalists and even though their capital does not take the form of funds but technology and intellectual property rights. They hold overseas passports but are part of the propertied class in the mainland's society and economy.

The fourth component consists of shareholders of state enterprises other than the state. As state enterprises adopted the shareholding system and as the state issued shares on a large scale, reserving only enough to maintain its controlling shareholder status, more and more state enterprise shares find their way into the hands of private individuals. Assuming that the state needs to own just 25 percent of the stock of an enterprise to be the controlling shareholder, as some economists estimate, then 75 percent of the shares are in the ownership of non-state shareholders. This proportion represents a substantial amount of money. Should the state decide to sell off a number of small enterprises and declare some mismanaged enterprises bankrupt and auction them off, then the state will own an even smaller percentage of the stock. Taking up the slack is foreign capital, as noted above. In addition, most of the shares will become the capital of private enterprises and township and town enterprises and the incomes and, subsequently, the capital of individual households and the salaried class. The owners of private enterprises and township and town enterprises, individual households, and wage-earning employees who own a substantial number of shares have also joined the ranks of the propertied class by virtue of their ownership of a large number of shares. It must be

made clear in passing that there is a point at which a difference in degree becomes a difference in kind. It would be absurd to lump together with the propertied class a salaried worker who has purchased 100 or even 1,000 yuan worth of shares. If, on the other hand, the income he derives from the shares he owns exceeds his wage, it is clear where he belongs.

The fifth component consists of idle profiteers. There is gradually emerging in China a class of jobless idlers who do nothing decent all day but are kept alive by deposits and bonds worth more than tens of thousands of yuan, reaping a bonanza of interest and dividends. Although these assets are not on the surface direct capital-goods capital, they benefit from the redistribution of production profits in the form of short-term loans. Accordingly these assets are no longer ordinary wealth but financial capital. This class of profiteers who live off assets should rightly be included in the propertied class.

The sixth component consists of celebrities in the movie, television, cultural, and sports communities who have parlayed their fame into capital. As an intangible asset, fame has made some individuals enormously wealthy. Already there are dozens of singers who command 10,000 yuan per concert appearance at home. Every Olympic gold medalist is a millionaire. A leading actor has now accumulated a fortune exceeding billions of yuan, rivaling that of some rich women in Hollywood. True to form, such wealth is promptly converted into capital. Some goes into advertising to finance the expanded reproduction of fame. Some is directly invested in industrial and commercial real estate to earn

production profits. Typical of this group are such celebrities as Li Ning [2621 1337], Liu Xiaoqing [0491 2556 1987] and Zhan Rong [3277 1369]. They too are members of the propertied class.

The seventh component comprises scientific and technical [S&T] workers who transform knowledge into productive forces. By patenting their inventions and innovations and selling them to the highest bidders, or by entering into cooperative schemes directly with a production unit to turn their inventions and innovations into commodities, S&T workers have reaped a windfall. Because of the government's drive to develop primary productive forces, the ranks of S&T personnel who successfully marry knowledge with commercialization will only continue to swell. The realization of wealth drives home the actualization of value and also motivates them to pursue even more wealth. The most successful among them have been elevated into the propertied class.

The eighth component is made up of administrative officials who abuse their office for personal gains. Although discipline inspection, supervision, and oversight by public opinion have kept administrative departments as honest as possible, there are still some administrative officials, particularly leading cadres, who have amassed considerable properties by abusing their office. Insiders say that some leaders stand to receive thousands of yuan, even 10,000 yuan, in cash in bribes, gifts, and bonuses at year end. After being ensconced in top jobs for years, some as long as a dozen years, a number of bureaucrats have stashed away a fortune made up of all sorts of dubious incomes. They too are members of the propertied class, their passport to that club being their official positions.

[passage omitted]

**Special Police School Demonstrates Skills**

*94CM0180A Beijing ZHONGGUO KONGJUN [CHINESE AIR FORCE] in Chinese No 1, 1 Feb 94 pp 26-27*

[Article by People's Armed Police Correspondents Jiang Zishen (5261 3947), Liu Lixian (0491 4539 3759), and Bie Qinglin (0446 1987 2651): "Fine Showing of Special Police. On-Site Sidelights on Special People's Armed Police Unit Military Training Demonstration"]

[Text] This is a stirring scene. This is a never-to-be forgotten moment.

On the morning of 19 September 1993, many leading comrades drive cars to the Special Police Academy of the People's Armed Police [PAP] to view a demonstration of PAP military training results. On this occasion, the PAP, a sword that has been hardened for the past 10 years, is undergoing rigorous examination by the party and the people.

I

At exactly 0900 hours, on command from PAP Chief-of-Staff Wu Shuangzhan (0702 7175 2069), the military training demonstration begins with the national flag raising ceremony. To the rousing strains of "Sing in Praise of the Motherland," played by the PAP band, a contingent of flag escorts in dress uniform and carrying semi-automatic rifles closely accompanies three soldiers bearing flags as they goosestep across the rostrum.

The Chinese people are renowned throughout the world as a nation devoted to ceremony. A march-past, the firing of a gun salute, and the escorting of foreign guests are the three main events making up the PAP salute to the troops and welcoming of the guests. The PAP honor guard enters the grounds to the stirring sound of the military band.

"Boom, boom..." Volley after volley of gunfire resounds, directing the eyes of those present to the left front of the exhibition grounds. Gun salute troops from the Eleventh Zhidui [regiment] of the Beijing Zongdui [corps] have now begun the gun salute. This unit was founded in 1984. Since the firing of its first gun salute on 23 March of the same year during the visit to China of Japanese Prime Minister Nakasone, it has successfully completed the firing of 238 gun salutes to welcome guests. Today, the gun salute troops are firing a 21-gun salute, the highest welcoming ceremony for foreign guests, to welcome the arrival of all the leaders. Within the short period of 1 minute 28 seconds, from the beginning to the end of the national anthem, it unerringly fires 21 volleys, each volley being fired simultaneously by four ceremonial guns.

As the thunderous sound reverberates across the land, a powerful motorcycle cavalry spreads its wings and soars. At 0915 hours, the national guest escort appears on the exhibition grounds amidst the roar of motorcycles. All that is visible is imposing people's armed police driving

white motorcycles to the left and right as they escort the vehicles carrying the foreign guests in a speedy entrance. During the nine years since the founding of this People's Armed Police contingent, which combines security and ceremonial escort functions into one, it has safely escorted heads of state, government leaders, and leaders of political parties in power from 152 nations in outstanding completion of its escort duties.

II

Volley after volley of rifle fire cracks. At 0929 hours, a dramatic demonstration begins in which Model 81 automatic rifles fire at targets on which Chinese characters face away from the audience. First four sharpshooters from the Special Police School, Wang Zhiwei, Mao Xiaodong, He Liming, and Hu Bo, came to the field. "Pop, pop, pop." With each crisp rifle shot, the words, "politically qualified, militarily accomplished, fine work style, strict discipline, and strong support" pop into view on the target in 20 large resplendent characters. These are Chairman Jiang Zemin's main requirements for building the armed forces.

The next item in the dramatic demonstration is on truncheon and shield technique and boxing. These two subjects, which are demonstrated by the Thirteenth Detachment of the Beijing Headquarters Group and the People's Armed Police School, fully show the solid basic skills of People's Armed Police military training. The 20 basic fighting methods and the five offensive and defensive actions that the truncheon and shield contingent, made up of 216 men from the Thirteenth Detachment, demonstrates, shows an attack that sweeps everything before it like a hurricane, and a defense that is like a steel Great Wall. The fisticuffs technique that the 60-man special police personnel collectively demonstrate consists of very powerful battle-tested fighting techniques that the Special Police School has absorbed in the course of training from the essence of Chinese martial arts and the fisticuffs of all countries. They blend offensive and defensive techniques into a whole. Using their fists and feet, the action is determined and lively.

A women's performance where no men are allowed. The performance of the Women's Enemy-Capturing Contingent from the Sichuan Headquarters attracts particular attention. In a one-on-one performance of capturing an enemy, young soldier Zhang Ying faces a club wielding young man who is half again as tall as herself. Using the fighting skills for making a capture that she learned in regular training, with cunning, she manages to knock the "villain" to the ground in less than three maneuvers.

The firing of Model 81 automatic rifles to designated parts of the human body brings the feelings of the spectators to a high pitch. From a distance of 100 meters, Five sharpshooters headed by Di Lin from the special police school aim at the targets, awaiting a command from the commander.

"The villain is trying to fight back. Hit him in the forearm."

"The villain is still fighting. Hit him in the chest."

"...."

With each command from the commander, the five sharpshooters fire, each shot hitting the part of the body they are directed to hit.

Firing of the machine gun in bursts is a tough part of the contingent's training. Comrades from the military training and research office of the Tianjin Group Command School devoted 3 years study to this problem finally solving it. On the exhibition ground, two machinegunners fire at 15 steel plate targets from a distance of 100 meters. The rifle fire goes "bang, bang, bang," and within 5 seconds all the targets are hit in 30 places. Immediately, enthusiastic applause breaks out on the exhibition ground. One leading comrade says, "It is not easy. The light machine gun that squads use does not do a good job, but the People's Armed Police troops are good shots!"

The light machine gun precision rapid firing that the Anhui Headquarters Group shows opens the spectators' eyes even more. Six people including school police officer Ding Jiatic, each fire 100 rounds at a human chest target from 100 meters. After the firing ends, the range officer presents the target for examination to the leaders on the exhibition grounds.

"Target number 1 hit with 100 rounds."

"Target number 2 hit with 100 rounds."

...

"Good shooting, good shooting."

"Beep." With the sound of its horn, a long distance bus drives into a station. Four "criminals" mingle with the passengers and board the bus. As soon as the bus starts to move, the "criminals" suddenly fire their weapons to hijack the bus. The lives and property of the passengers are in serious danger.

This is a tactical exercise conducted against a backdrop of real warfare. When our people's armed police detachment patrolling the highway discovers what the "criminals" have done, at once they notify headquarters via walkie-talkie. Immediately, a truck bearing local government license plates, and two Model 130 trucks appeared behind the bus. The officers and men of a Special Police combat company were under orders to remain in the vehicle as they began to subdue the "criminals" and rescue the hostages.

The hijacked bus speeds along rapidly, our special police unit personnel in hot pursuit. When the bus reaches a relatively wide spot in the road, the lead truck suddenly overtakes it and brakes suddenly across the road ahead of it. When the bus driver instinctively brakes his vehicle, the two Model 130 trucks speed to the right sight

of the bus. The special police detachment personnel leap from under the canvas top, smash some windows in the bus, and rush inside, capturing alive all four of the "criminals" as swiftly as a thunder clap that leaves no time for covering one's ears. All the hostages are released with no injury to any of our special police detachment personnel. No sooner does this intense battle end than the curtain opens on a battle to rescue hostages from a residential area.

Seven "criminals" who had stolen a large sum of money, rifles and ammunition hijack a white van, which they are using to flee helter-skelter. Along the way, the van breaks down. To prevent the police from capturing them, the "criminals" place obstacles in the road including the van and lane separators, and set fire to them. Then, they flee to a residential apartment where they seized several people as hostages in the hope of being able to escape. As soon as our special police detachment receives the report, it immediately organizes four combat teams, which approach the apartments separately. Our riot prevention personnel fire a tear gas shell from within the riot prevention armored personnel carrier. The tear gas shell explodes in the room where the "criminals" are hiding, and white smoke gushes forth at once. Our combat team personnel, some of them following the downspout and others using rope, scale the building like geckos, leap into the room, and pin the "criminals" in a corner with firepower, seizing four of them alive. Another two "criminals" flee the building in an effort to escape. Our assault team personnel immediately set loose two watchdogs, which bring the "two criminals" to the ground in the twinkling of an eye.

A roar of motors as the iron cavalry soars. The skilled motorcycle driving of the Guangdong Police Headquarters brings the exhibition to a high pitch. Six people's armed police headed by Gao Xueping, drive their iron cavalry motorcycles at high speed across a single plank and soar across a 1.5 meter high platform.

"Next is flying across a short bridge. The bridge is 3.5 meters high, 3 meters wide, and 7 meters long. This simulates obstacles that might be set up in search and destroy combat..." After hearing the announcer's briefing, the leading comrades on the rostrum put their binoculars to their eyes to watch this daring performance.

"Varoom, varoom." As the detachment members open the throttle, the motorcycles issues an ear-splitting noise. Then, six motorcycles fly toward the cut off bridge at lightening speed. The instant their front wheel hit the cut off bridge, they zoom into the air in an arc, then land safely on another cut off bridge 7 meters distant. Whew! They are like tigers vaulting a ravine or like a rainbow arching through the sky. The leading comrades on the rostrum are overwhelmed by the exceptional skills of the soldiers. They put down their binoculars and applaud warmly.

### Cross-Strait Trade Policies Analyzed

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[Article by Liu Fang (2692 5302): "Developmental Trends of Taiwan-Mainland Trade"]

[Text] This year, it is estimated that Taiwan will implement more flexible trading policies in its economic and commercial policies, while continuing to be more restrictive on investment. But due to the working of the "profit principle," it will be difficult to halt the trend of Taiwan businessmen investing on the mainland of China.

**Will Taiwan implement more flexible economic and commercial policies regarding Mainland China?**

At the beginning of the new year, word spread out from the island of Taiwan that more flexible economic and commercial policies would be implemented; but at the same time, it was said that the Taiwan government was vigorously implementing a "going to Southeast Asia policy," encouraging manufacturers and businessmen to develop the Southeast Asia market. Indeed, what changes in economic and commercial policies regarding Mainland China will the Taiwan government implement? What economic and commercial developments will the next year bring?

First of all, let us look at this news of "flexible restriction." Not long after the new year, the International Trade Bureau of the Taiwan Economic Department leaked the news that "Means of Permitting Trade Between Taiwan and the People's Republic of China" was completed. What most inspired economic circles on both sides of the straits was the permission planned to open the Taiwan market completely to mainland goods within two years at the outside. At that time, the methods for "listing negative factors and forbidding exceptions" for mainland goods will go into effect.

This will change the current method of importing mainland goods which requires an import license examined and issued by the National Trade Bureau. In the initial stage, there will be a change to a visa issued by an authorized; in the second stage, there will be a change to "listing negative factors," then gradually moving into free trade.

These revisions were acclaimed by Taiwan trade officers, for this way Taiwan can treat Mainland China as a general trade region, and implement administrative measures similar to those of other general regions. The government's role will change from administering, examining, and issuing licenses to helping manufacturers and businessmen develop markets.

Before this, the Taiwan Economic Minister Chiang Ping-k'un [3068 0014 0981] made public a proposal to "ship across the strait at fixed ports," a plan that would have "Kaohsiung correspond to Hsiamen," and "Fuzhou correspond to Keelung," with the goods in Taiwan's cross-strait trade shipped directly to cut costs.

These proposals and the manner of the Taiwan Economic Ministry have attracted considerable attention, not just on the island, but also across the strait, and throughout the entire worldwide Chinese community as well. It is believed that implementation of these measures would definitely go a long way toward promoting cross-strait economic and commercial ties, and even develop cross-strait relationships.

**Encourage Mainland China's economy and commerce "going to Southeast Asia"**

In fact, these proposals were made as early as last November. At that time, when the Taiwan Economic Ministry held informal discussions with representatives of the enterprise community, 19 countermeasures were raised to promote cross-strait economic and commercial communication: 1) Resolve "economic problems" by "economic means," to help entrepreneurs "cut costs" and "develop markets" through use of a market operations system. 2) Allow manufacturing and commercial units fix plans, allow entrepreneurs master the plans by themselves with government assisting by furnishing essential capital and information. 3) Reduce the number of "forbidden items" in Mainland China investment, and expand the scope of the "types of investment requiring special examination." 4) Let "trade associates" help entrepreneurs expand their businesses. 5) Give total support to entrepreneurs who have achievements in industrial promotion. 6) Encourage relevant government officials to conduct on-site inspections of the mainland market. 7) Open up mainland bank business operations by financial organizations. 8) Open up, as early as possible, the policy of allowing mainland economic and commercial businessmen to come to Taiwan. 9) Widen the door for importing mainland semi-finished products to Taiwan. 10) Appropriately open up the allowance for Mainland China investment projects and technical cooperation. 11) Let the General Industry Association organize a general Taiwan commercial association for investing on the mainland. 12) Promote the rights and interests of Taiwan business through people-to-people industrial and commercial groups. 13) Suggest that both sides negotiate intellectual property protection agreements. 14) As early as possible, enact legislation protecting the investment rights and interests of Taiwan businessmen, and list Taiwan businessmen's life and property insurance in cross-strait investment protection agreements. 15) Work towards allowing the mainland government to set up as soon as possible a mediation agreement system for cross-strait economic and commercial disputes. 16) Allow Taiwan businessmen to establish people-to-people economic and commercial organizations on the mainland. 17) Relax restrictions on Taiwan business's capital investment on the mainland. 18) Permit Taiwan businesses to fund schools on the mainland. 19) Completely open up Taiwan business' operational rights in the mainland market.

Summing up these 19 proposals, Chiang Ping-k'un said that the greatest policy change in the future would be government's change from neither encouraging nor

interfering to vigorously assisting and leading overall Taiwan investment on the mainland. In addition, it will readjust the current measure of "listing the positive factors" of mainland investment to one of "listing the negative factors," that is, "allowance in principle, with only exceptional prohibitions."

But just a few days later, Yang Shi-chien [2799 0013 4873], vice minister of the Economic Ministry, corrected this to "maintaining the current status" of economic and commercial policies regarding the mainland. He went on to explain that whether mainland investment was "listing the positive factors" or "listing the negative factors" was a technical problem, not a policy problem; while the positive list was sufficient, there could be a change to a negative listing.

But Kao K'unglien [7559 1313 1670], vice chairman of the Cross-Strait Trade Committee was very clear in his view that the change from listing positive factors to listing negative factors was a policy issue, and should be sent to the Committee for discussion. In addition, he demanded that in the future the Ministry of Economics inform the Committee in advance of major and significant new measures concerning cross-strait trade. Entrepreneurs believe this demonstrates that the Cross-Strait Trade Committee is still in control of economic and commercial policy regarding Mainland China.

Obviously, the new proposals put forth by the Ministry of Economics after the New Year are a reversal of the "19 items" proposed last November. At that time, Chiang Ping-k'un proposed "listing negative factors" in both investment and trade, but the new proposal only mentioned the single trade issue, saying nothing about the investment issue, and it was still uncertain whether it would pass through the Cross-Strait Committee. Moreover, it is obvious that by its "going Southeast Asia" policy, the Taiwan government is encouraging entrepreneurs to invest in Southeast Asia instead of in China.

So, we can conclude that in the coming year, in its cross-strait economic and commercial policies, the Taiwan government will have a more flexible trade policy, while still retaining many of its restrictions on investment.

#### **The reasons for Taiwan's more flexible cross-strait trade policy**

In reality, it is propelled by the condition that first caused Taiwan to take greater steps towards free trade.

First of all, it is a requirement for joining GATT. It would run counter to joining GATT for Taiwan to carry out a policy of prohibiting and restricting the importation of goods from Mainland China out of political considerations; Taiwan cannot join GATT if it does not change this policy, so it has to abolish it gradually.

Second, the demands of developing foreign trade. In January, the Taiwan Ministry of Finance announced that for the entire year, Taiwan had a \$7.88 billion

foreign trade surplus, which was \$10.59 billion less than the year before last, with an annual negative growth rate of 0.166 percent, the lowest in four years.

But there was a \$16.72 billion surplus with Hong Kong, an increase of 22.7 percent over the year before. It is common knowledge that Taiwan goods actually enter the mainland through Hong Kong, and the current surplus in Taiwan's foreign trade is chiefly due to having the mainland market there. If exports to the mainland were subtracted, Taiwan's foreign trade might have shown a deficit last year.

Third, a more flexible policy toward importing goods from the mainland holds more benefits for Taiwan than shortcomings. Although giving mainland commodities a more open market will reduce its trade surplus with the mainland, Taiwan can obtain more cheap raw materials and semi-finished products from the mainland, which will improve the international competitiveness of Taiwan's own products help to increase exports. In addition, it means that more of Taiwan's semi-finished products can be processed on the mainland, which will reduce costs and further increase competitiveness.

Therefore, we believe there will be more development in the next year or two, and there especially will be a great increase in the amount of mainland goods going to Taiwan.

But the Taiwan government always has two concerns when it comes to investment. One, that Taiwan industry will become a "vacuum"; and two, an increasing "degree of dependence" on Mainland China, just like the situation in Hong Kong. Although everyone in the Taiwan government, no matter whether in charge of politics economics, understands that direct investment on the mainland can not only exploit cheap land, labor, and resources but can also take direct advantage of the huge mainland market. But they always worry that it could lead to an "industrial vacuum" and an increasing "degree of dependence" on the mainland, which will put them at a disadvantage in negotiations with the mainland government, which the mainland would then control; this is hard for the Taiwan government to accept.

In addition, due to the many political barriers raised by the so-called "three stages" policy of developing the relationship with the mainland over the near term, medium term, and long term, plus the former "three 'no' policy" and the "guiding principles for unifying the nation," breakthroughs have not been easy. For example, "cross-strait shipping between fixed ports" proposed by Chiang Ping-k'un is really just wishful thinking by the Economic Ministry, and with no response by higher ranking Taiwan officials, it might be hard to accomplish within a short term.

In summary, we believe that in the next year, the Taiwan government will continue to encourage manufacturers and businessmen to "go to Southeast Asia," and there will still be many restrictions on investing in Mainland China.

However, due to the working of the "profit principle," it will be difficult to halt the trend of Taiwan business investing on the mainland.

Mainland statistics show that, up to last November, over 15,100 enterprises with Taiwan investment had been approved, with agreed capital of \$13.6 billion. Regardless of investment site, scale, or project, investment by

Taiwan show an expanding trend. At present, Taiwan enterprises are even in Qinghai and Tibet, and Taiwan business on the mainland has shifted from the short-term processing industry of the past to developing long-term investment projects such as finance, real estate, energy, etc., and has cross-trade, large-scale investment projects have started to appear. Overall, Taiwan business investment on the Chinese mainland will steadily increase.

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